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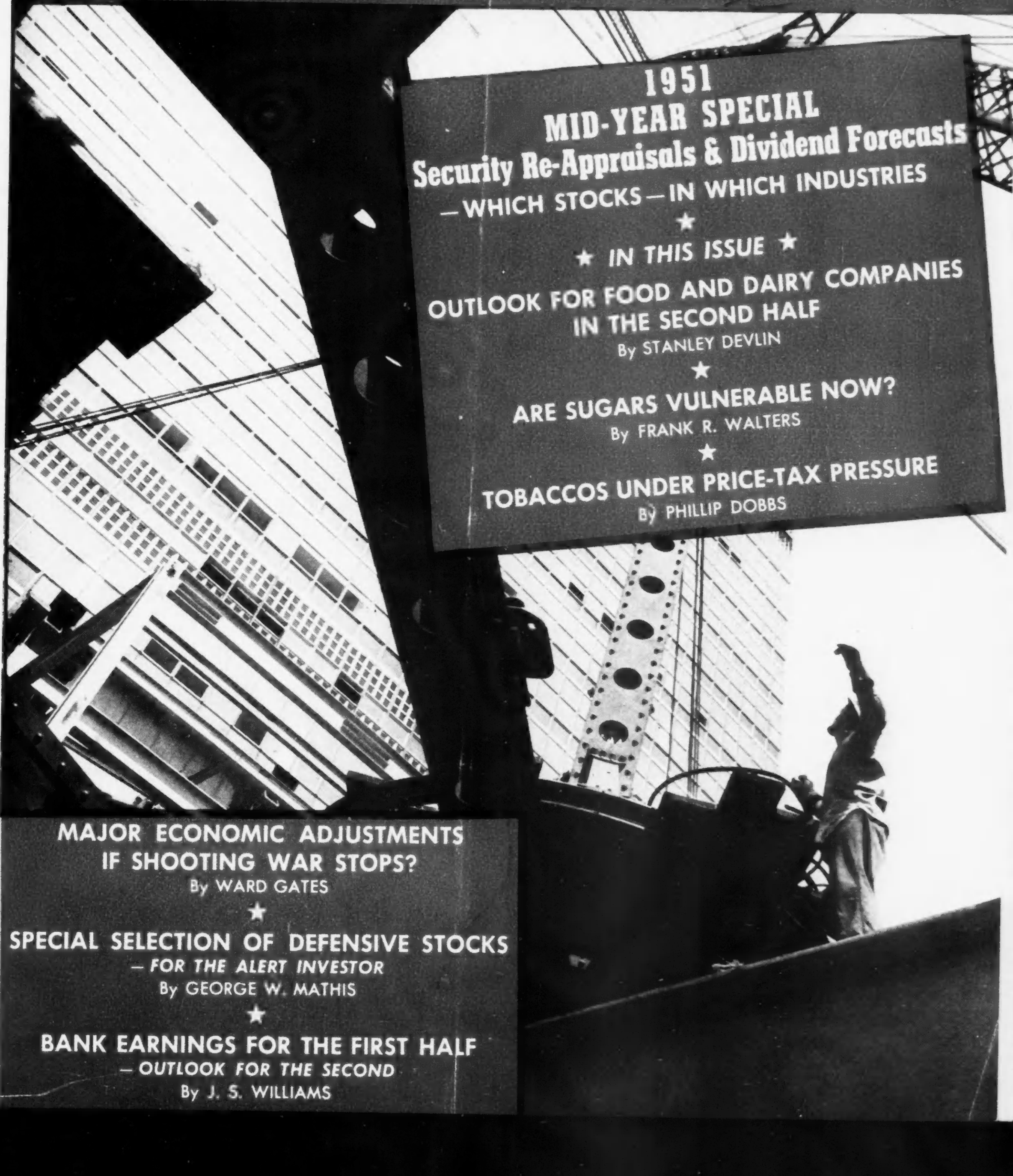

1951 MID-YEAR SPECIAL

Security Re-Appraisals & Dividend Forecasts

—WHICH STOCKS—IN WHICH INDUSTRIES

★

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By WARD GATES

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SPECIAL SELECTION OF DEFENSIVE STOCKS
— FOR THE ALERT INVESTOR
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— OUTLOOK FOR THE SECOND
By J. S. WILLIAMS

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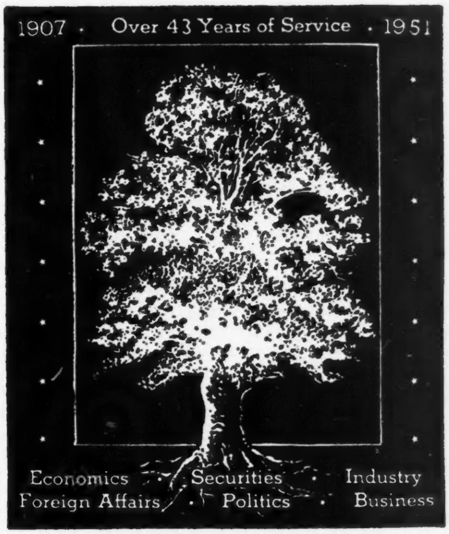
THE MAGAZINE OF WALL STREET

C. G. WYCKOFF, *Editor-Publisher* E. A. KRAUSS, *Managing Editor*



The Trend of Events

UNCERTAINTY IN TAX LEGISLATION . . . Within two months, it is expected that the long-awaited tax bill will emerge from the legislative hopper in its final form. There is not much use in speculating on the total amount to be extracted from the long-suffering American public, though it is expected that this will be considerably smaller than that demanded by the Administration. There is a phase of this business, however, that can safely be commented on at this stage and that is the obvious fact that Congress in practical effect is going to set a bill not for one but for the next two years. Tax legislation in 1952 seems an impossibility owing to the fact that we are going to hold national elections next year and, normally, tax legislation in election years is shunned like a plague by practically all the incumbents who will be busy trying to get re-elected.

A considerable element of danger lies in neglecting the probable need for new legislation on taxes next year. About that time, defense expenditures are going to hit a peak and some thought should be given to the necessity of preparing in advance for tax adjustments as that peak is reached. If we wait until the last minute or, what is now more likely, until it is too late, we shall find ourselves with an enormously high tax rate at a time when there should be some easing off as the armaments program levels off. It would be far wiser if Congress considered the current bill as an interim measure until we could see better, as will be the case next year, whether important modifications in defense spending would be warranted.

The ending of the Korean war has certainly added a new element in the picture and Congress would be foolish to disregard it. For that reason, what is the sense in fixing this country with a stupendous tax burden for two years ahead when nobody knows for sure what the exact situation is going to be a year from now? If we could be certain that Congress would not definitely exclude the possibility of remedial tax legislation next year, if needed, we would not have to be so concerned but, unfortunately, with elections coming up, it is almost too much to expect our national legislators to stay for months on end in Washington on further interminable hearings on taxes when they will want to go back to their home districts to do some political fence-mending.

Incidentally, it is time this great country developed a truly scientific basis for taxes instead of the hodge-podge with which we have been afflicted these many years. It is time that we gave up our essentially political approach to this great economic problem and attacked it realistically. Congress ought to have more faith in the American people who certainly would appreciate a strong, well-constructed and equitable tax program instead of the enormously complicated and in many ways unfair taxes under which all of us struggle these days.

> *We recommend to the attention of our readers the analytical discussion of business trends contained in our column "What's Ahead for Business?" This regular feature represents a valuable supplement to Mr. A. T. Miller's stock market analysis of importance to investors as well as to business men. To keep informed of the forces that may shape tomorrow's markets, don't miss it!*

FLOOD LOSS . . . When the swirling waters of the Kaw and Missouri rivers brought catastrophe to one of America's great cities and much of the surrounding countryside,

BUSINESS, FINANCIAL *and* INVESTMENT COUNSELLORS: : 1907—*"Over Forty-three Years of Service"*—1951

it caused not only losses running into the hundreds of millions and loss of life, but exposed us again to the charge that we are the most profligate nation on earth with our natural resources. We very rarely seem to learn from these disastrous encounters with nature. Surely, one does not have to be prescient to know that these misfortunes will occur again and again in different parts of the country unless we are both resolute in execution as in planning for the prevention of the wasting of national assets, material as well as human. The remarkable results achieved by the Tennessee Valley Authority in flood control proves that other "Authorities" of the same type are needed in parts of the country threatened with recurrent floods. There is no doubt that the communities involved face many obstacles in perfecting an adequate organization for prevention but these spring from the differing needs, often conflicting, of the various constituents of these communities. However, they must be resolved in view of the paramount need of all. The situation is surely too serious to permit further procrastination and haggling, and the people should demand concrete action by the Federal and state governments concerned now and not after more billions are squandered unnecessarily and American lives are lost.

INTEREST ON SAVINGS BONDS . . . Very shortly, the Treasury Department will expand its efforts to sell "savings bonds" of the "E" type to the public as another measure not only in the fight against inflation, but to help finance the government's projects. The Treasury was very successful with its sales of this class of bonds during the Second Warld War, but this was aided partly by the patriotic spirit of the people and also by the fact that the public was not able to buy goods which were then in very short supply and perforce had to save its surplus cash. For that reason, the comparatively low rate of interest offered then was no deterrent.

The Treasury, however, faces a different situation today. The public is under no war-time spur to buy these bonds, especially now that the Korean affair may soon be concluded, and it has no difficulty in procuring goods, if it has the cash with which to buy. Furthermore, the interest rate offered, averaging 2.9% for the ten-year period, is not considered sufficiently attractive at a time of high living costs.

President Green of the American Federation of Labor recently urged Secretary Snyder to consider a new base for the sale of these bonds, consisting of two features: one, a raise in interest rates to 3.5%, and, two, a provision for a sliding series of maturity dates that might appeal to individuals and families with different savings requirements. In his recomdations, President Green would also limit the amount of bonds that could be bought by any one individual.

It strikes us that these are eminently sound proposals, especially in view of the fact that since 1946 redemptions, especially of the low-priced issues, 25 and 50 dollars, have far exceeded new purchases. It is painful to know that a large percentage of families with less than $5,000 incomes do not posess any government savings bonds at all and that this percentage is increasing. If the great mass of earners are to be encouraged to add to their savings through "savings" bonds it will be necessary to attract them on more favorable terms than they can secure at present. Since the Treasury is about to embark on an extensive campaign to promote sales, it would be a pity to find that these efforts were not as productive as they might have been if better terms than those in prospect had been offered. It is only necessary to add that in the year 1941-45, the Treasury managed to sell the enormous volume of 35.4 billions in "E" bonds alone, or at the average rate of nearly 9 billions a year. It would be a great help if a comparable success could be had now, though, of course, conditions are greatly different and the necessary inspiration to buy these bonds is naturally not so keen.

COLLEGE TRUST FUNDS . . . Of growing importance in the securities markets are the activities of the very large investors such as labor union "pension funds" and university endowment funds. For example, there are approximately one billion dollars of college funds invested in securities today, a very large figure even in these days of multi-billions. Needless to say, the managers of these funds have a very special responsibility in keeping their investable assets as safe as possible, since the income received is used in many ways vital to the life of the colleges concerned.

Many years ago, such investments were made chiefly in bonds as representing at that time the most satisfactory source of income from the viewpoint of the special needs of the institutions. But two decades of declining yields from bonds have forced a vital change in the means adopted by the fund managers to secure a reasonable return. This change has consisted principally of a large-scale diversion from bonds to common stocks, with a comparatively small sprinkling of preferred stocks.

Harvard University, for example, has somewhat under 250 millions invested as follows: 20.7% in bonds, 7.5% in preferred stock, 43.8% in common stocks, and the rest in other types of obligations. It is this very large concentration of investment in common stocks, just as true of the other colleges and universities as of Harvard, which has led to the opinion of competent observers that such activities, which will be added to in time by labor union funds and insurance company money, has imparted a new and important element of comparative stability to the prices of investment stocks. It is the latter, of course, rather than the more speculative type of holding, which attracts the disposable funds of our leading private institutions of learning. Any development which will help to lend stability to the securities markets is to be welcomed as giving greater confidence to investors and as contributing, in the long run, to a salutary phase of our growing economic maturity.

WORLD PACT . . . Following upon the outbreak of the Korean war last year, a mad world-wide scramble ensued for strategic materials with the United States the chief culprit. The result of this wild race to stock-pile inevitably produced a thoroughly chaotic condition in the world markets for scarce materials, in which we ourselves were victimized by some producing countries who did not fail to take advantage of our terrible need. To bring order out of this intolerable situation, at least in several of the most scarce com- (*Please turn to page* 478)

As I See It!

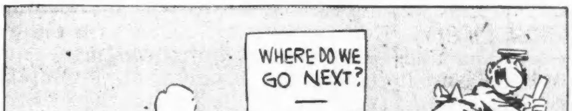
BY ROBERT GUISE

RUSSIA UNWILLINGLY FACES REALITY

Events that have taken place since Mr. Malik told of Russia's willingness to negotiate a peace in Korea tend to reveal more of Russia's real position with relation to the West, and to confirm the growing belief in well-informed quarters that the Communists are not prepared for war at this time. It now seems that Russian maneuvers have been based on the expectation that the West would continue to be hypnotized by fear of the Kremlin's might. But Russia's experience in Korea has proved to her that the West is already strong enough to defeat any aggressive designs she might have on a local level.

That the Kremlin is unwilling to risk further military involvement is shown by the fact that it could not or would not come to the further aid of her Chinese communist ally. Certainly Stalin could not afford to risk the destruction by air of the Manchurian industrial complex, so vital a factor in the Soviet Empire's military and economic planning. Nor could he afford to risk, in case of a global war, the ruin of his new Siberian plants. So that it seems that in an actual confrontation with the possibility of direct military opposition, Russia felt compelled to withdraw and adopt, for the time being, an apparently more conciliatory attitude. Also, the MacArthur hearings proved for once and all to the Russians that they were courting disaster if they insisted on further military encroachment.

"GET OUT THE POGO STICKS AGAIN"



Dowling in the N. Y. Herald Tribune

This leads to the interesting question as to whether Russia is as strong militarily as she would like the world to believe. Russian governments of all kinds, whether communist or czarist, have always sought to create an impression of over-powering strength in order to impress or intimidate foreign governments. They are experts in this type of camouflage, and have used it heavily in their diplomatic campaigns. It is not for nothing that Catherine the Great commanded her courtier, Potemkin, to build the facade of a handsome village—with nothing but a front view—in order to impress some visiting foreign dignitaries, who had scornfully told Catherine that her villages were a disgrace. Needless to say, the visiting officials were not permitted to examine the rear of the facade, in which case they would have discovered the truth, that the whole thing was a concoction.

Looking at the present Soviet position in greater detail, so far as we are permitted by what has leaked out from behind the Iron Curtain and informed opinion based on experts on the situation, we find that even after five years of toil after the war, total steel production is only 30 million tons whereas ours is now over 100 million, without counting the additional millions from Western Europe. It is also known that Russia is comparatively deficient in oil resources; in fact, by many this is considered a real Achille's heel for Russia. Certainly, the Soviet leaders are too prudent to embark on a full-scale war without much greater supplies of oil than they command at present.

Much has been said lately regarding the speed and power of her new jet-powered aircraft. We have to take the word of observers for this but the fact that the Soviets were able to exhibit acknowledgedly modern and efficient military aircraft does not mean that she has a great supply of these weapons. They are just as likely to have shown these planes to impress the invited foreign guests for propaganda purposes and to frighten the onlookers. Russia has always made it a policy to conceal her hand where she is really strong and to flourish a fiction of strength where she has sought to hide weakness.

(*Please turn to page* 480)

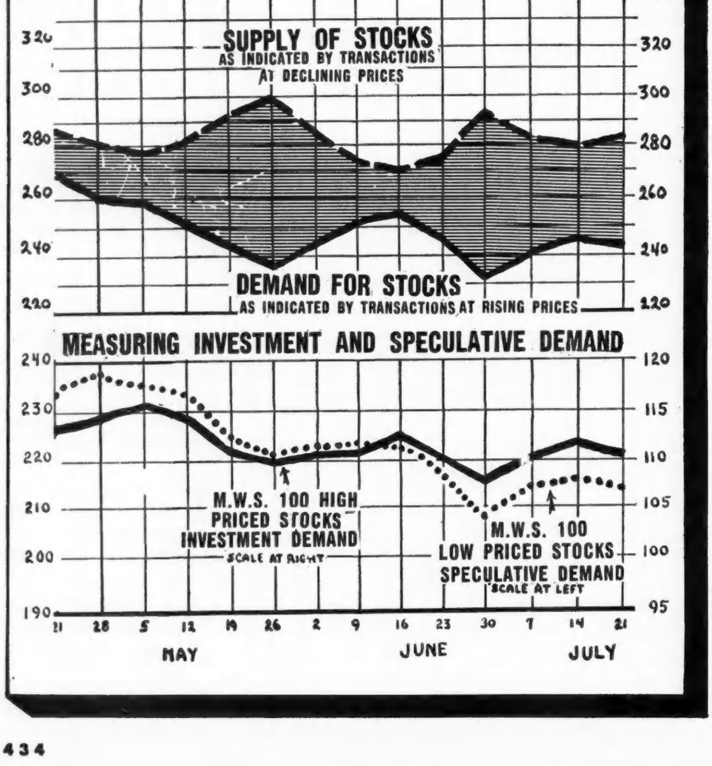
Further Market Adjustment Ahead?

The market remains dull and presently lacks any strong impulse either way. Selectivity is pronounced and probably will continue so. The general outlook for the rest of this year, and into 1952, is replete with uncertainty on a number of major counts. Scrutinize your present stock holdings carefully, and continue to maintain conservative reserve buying power.

By A. T. MILLER

Here is the recent pattern: There was a decline of 11.39 points in the recent industrial average from June 15 to June 29, associated with the initial Russian feeler on a Korean cease-fire deal. With the negotiations thereon dragging out, this lost ground was made up in a low-volume rally by July 13. In more recent days, while awaiting specific Korean developments, the average backed and filled in the close vicinity of mid-June and mid-July rally levels. It stands a little above the mid-way level in the 20-point range marked out to date since early last May, when the high for the 1949-1951 rise was established.

As for many months past, the rail average has fared less well. It has rallied only modestly from its 1951 low to date, recorded on June 29. It now stands within the lower one-fourth zone of the broad range —nearly 18 points, or 20% from high to low—charted since the major high was established as far back as early February. On the other hand, reflecting the search of investment funds for secure yield, as well as a somewhat more optimistic sentiment as regards tax prospects, the utility average has quietly recovered to within a fraction of its previous major high, recorded in May, 1950, or before the outbreak of the Korean war.

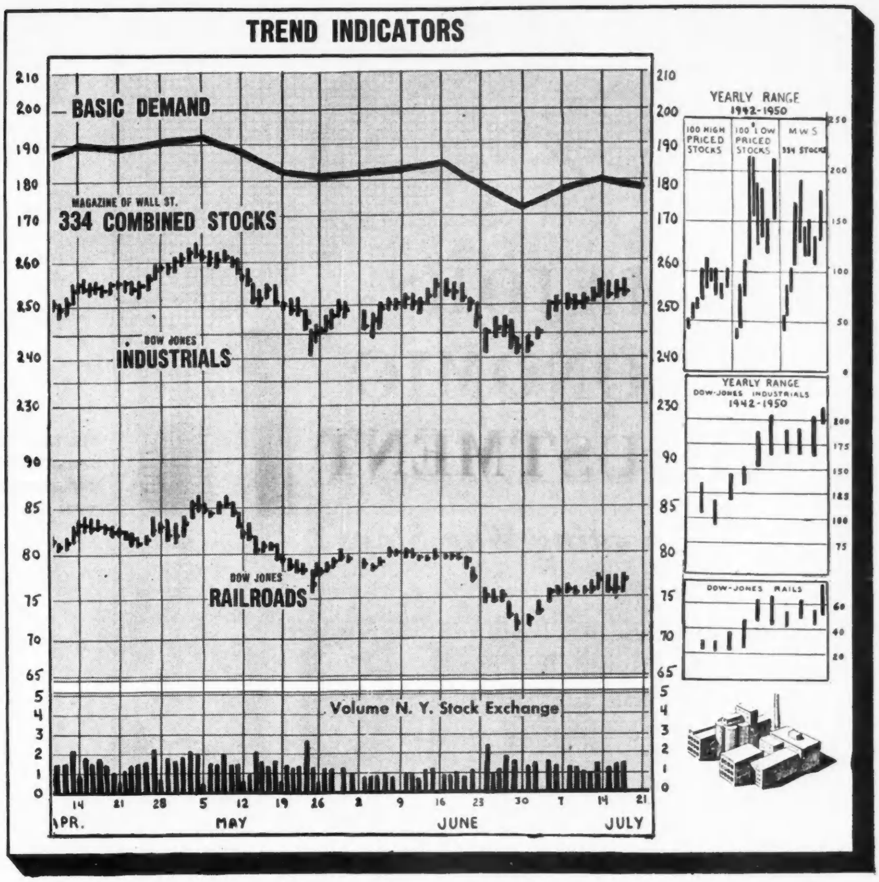


Numerous Cross Currents

As is always so at a time when the market lacks a dynamic general impulse either way, interest centers largely in the cross-currents within the list. They are uncommonly numerous at the present time; and selectivity might well continue to hold the spotlight until fresh develpoments push investors and traders into a more positive state of mind on the general prospect. It cannot be expected that the industrial and rail averages will remain indefinitely within their ranges of recent months; and it remains our opinion that their 1951 lows probably will prove to be under the lows of late June. It may depend largely on foreign developments – as translated into sentiment on longer-term prospects for arms spending, taxes and corporate earnings – whether the additional decline in average stock prices that we are allowing for is to be moderate or fairly severe. On the basis of existing economic-financial fundamentals, we repeat that we do not see the likelihood of a major bear market.

The contrasting performances of rails and utilities highlight the emphatic current selectivity of the market, without by any means telling the full story. On the one hand, there is adequate to good demand for stable-dividend stocks of high investment quality. (See special discussion of defensive stocks of this type on

following pages in this issue). On the other hand, there is no aggressive demand for typical cyclical stocks even of medium-speculative grade; and the general trend of the most speculative low-priced stocks continues to be downward.



Growth Stocks In Demand

At the same time, there is a good demand for favored growth stocks, especially on the part of institutional buyers, but also to some extent from the general public. This accounts for recent new highs in a fair number of individual stocks, chiefly chemical, drug and natural gas issues; and for the support which most better-grade oil stocks are getting at levels generally close to record highs. A number of the issues performing exceptionally well, both among growth stocks and defensive stocks, have been commented on favorably on other pages in previous issues of the magazine.

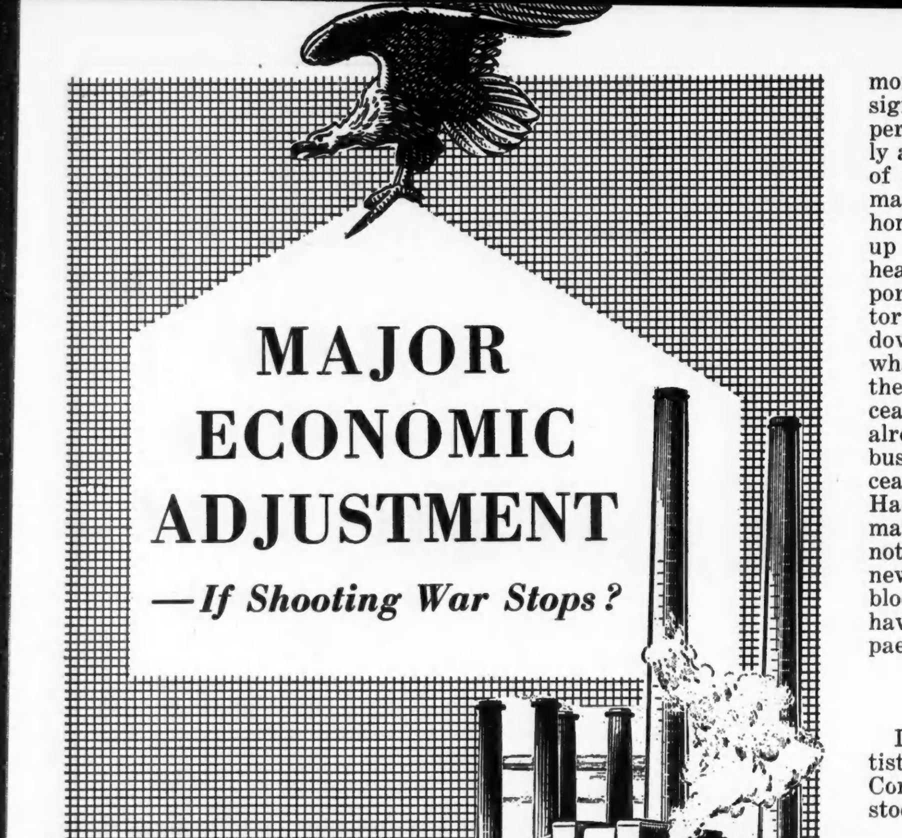
There are some points of market interest in the Federal Reserve Board's most recent survey of consumer finances and investment leanings. It shows a shift in the preferences of individuals toward investments of "fluctuating money value", chiefly common stocks and, to some extent, real estate. Among people with annual income of $7,500 or more, 45% were found to favor this type of investment over fixed-income investments, compared with only 22% in 1949. The over-all consensus (that of people with income of $3,000 or more) favored equity-type investment to the extent of 23%, against 11% in 1949. To a degree, individuals are thus following the lead of trust funds, pension funds, insurance companies, etc.

However, some qualifications should be emphasized. This new demand is investment, not speculative; whereas it takes broad speculation to put average stock prices dynamically higher. Whether on its own, or with the guidance of brokers or other advisers, it affects only the minority of stocks qualifying for institutional purposes, running rather heavily, therefore, to defensive stocks or growth stocks. Such issues are not sufficiently numerous to affect the general level of the market more than moderately.

In the second place, the questioning on which this survey was based was done earlier when commodity prices were rising sharply, the bond market was reactionary, and the general public was much more inflation-minded than it has been in recent months. The chief reasons noted for the increased preference shown for equity investment were "high yield" and "hedge against inflation". Since "high yield" has been a market fact for several years, inflation fears may have been the biggest reason for the shift. If so, then in that respect the survey is not too pertinent to the present situation.

Predictions of Renewed Inflation

The Administration is continuing its effort to high-pressure Congress into adoption of exactly the kind of control bill it has demanded and to mobilize supporting public opinion by predictions of "run-away" inflation, resulting from the defense spending, if it does not have a tough price-control law. Congress and the public are not too excited by this prediction. There are two chief reasons therefor. First, there is no great amount of confidence in the Administration's judgment about such matters, because its batting average in economic prophesy is rather low. Second, commodity prices have been reactionary ever since last February, and the public knows that consumer goods are in plentiful supply. The Administration looked for inflationary conditions and shortages in the first half. When that proved wrong, it predicted that there would be renewed inflation "later in the year". But at this writing the current commodity futures index, which is the market consensus on the outlook for basic staple five months ahead, is down to about 177, from a February high of about 215, and back to the level of mid-August, 1950. Well, five months ahead take us into the final fortnight of 1951. Of course, there is nothing infallible about a market consensus. It might shift within nearby months, depending on new (*Please turn to page* 480)



MAJOR ECONOMIC ADJUSTMENT

—*If Shooting War Stops?*

By WARD GATES

Cynics both here and abroad have claimed, and not without some justification, that American business interests "fear peace." The moral aspect of this dilemma need not concern us but, on a realistic basis, there is no question that the prospect of peace is altering the thinking of economists, business men and investors. For that reason, it is imperative that a new view be taken of the over-all situation and to see whether the prospective ending of hostilities will produce marked changes in the industrial, business and financial picture.

In estimating the forces at work, it is necessary to examine the situation from two points of view, the present and intermediate prospect, that say for a few months ahead; and the longer range possibilities, stretching well into 1952. It is needless to say that only the most foolhardy would venture an opinion running beyond this date.

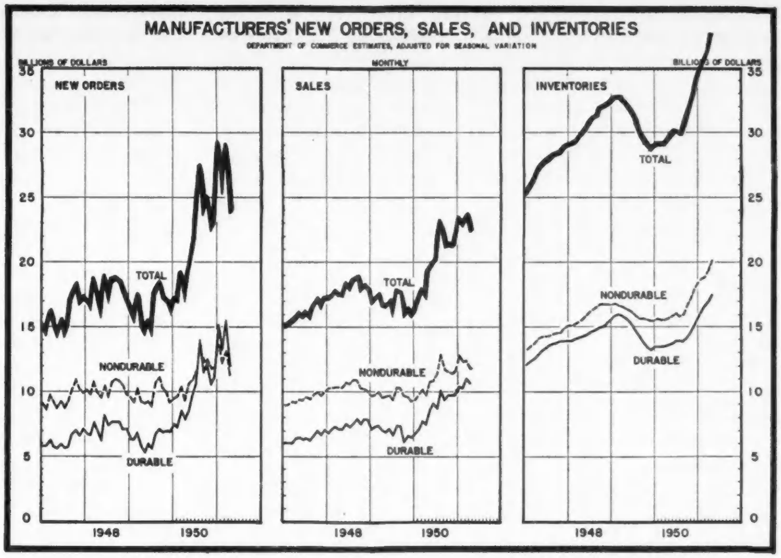
From the standpoint of the immediate future, it sems that the confusion caused by the Korean cease-fire in business and investment circles was latent in the picture for some months before the ending of hostilities. As a matter of fact, it is about four months since the "boom" showed signs of flattening out. In that period, we have witnessed not only an ending of the upward surge of world prices but a retreat on many fronts; also retailers at home commenced to feel a drying up of sales and went home with headaches at night after they pored over their top-heavy inventories. All this tended to damp down the fires of inflation. So what has happened really is that the expectation of the Korean cease-fire has merely added to an already growingly uncomfortable business situation. In a sense, the cease-fire came at the wrong time. Had it occurred when dealers and manufacturers in soft-goods were not over-stocked as they were, the new hope for an ending of the bloody fighting in Korea would have been met universally by paeans of joy.

Record Stocks on Hand

Let us look at the actual statistical position. According to the Commerce Department, business stocks, mostly at the manufacturers' level at the end of May were 69.9 billions, an all-time record. This was the total volume of goods tied up in warehouses, retail stocks and wholesalers' supplies. It is significant that despite the increased volume of sales in the latter part of 1950 and the early months of this year, business inventories were not less than 16.6 billions greater than a year ago. Naturally, such an overwhelming mountain of goods was bound to prove the greatest obstacle in view of the obvious fact that its size could not be appreciable reduced. This was all before the Russian delegate at the United Nations offered peace in Korea and the effects of his statement, therefor, merely gave, as it were, a sort of coup de grace to hopes of solving the inventory problem in the immediate future.

Lower Sales—Higher Profits

Looking at the profit side of this picture and without burdening the reader with too many figures, it is pertinent to point out that while sales by manufacturers reached new records in the first quarter of the year, their profits declined. This was due to increased costs and to some extent to the increase in corporation taxes. Thus manufacturers' profits after taxes were 3.3 billions in the first quarter, a decline of 8% from the last quarter of 1950. Indications are that the second quarter profits will continue to show the moderate downward drift inaugurated in the first quarter in a number of branches of



industry, speaking generally.

Change in Psychology

Now all this has served to change business psychology. Whereas for a considerable period after the Korean war started, manufacturers, wholesalers, dealers and retailers vied with one another to secure not only their normal supplies but an amount greatly in excess of these requirements, regardless of the fact that this could only be done by shoving prices up to a marked degree, to-day they are more or less worried by their very large stocks. This in itself slows down the rate of new buying and forces hesitancy all along the price line. When this uncertainty is translated into an uninspiring stock market, the gloomier psychology generally is naturally reinforced. It seems likely that this is the background which will be encountered in the next few months. Business, therefor, is bound to be more cautious, and the boom psychology of the past will likely be changed instead to one of more hopeful expectancy as soon as the present wave of uneasiness subsides.

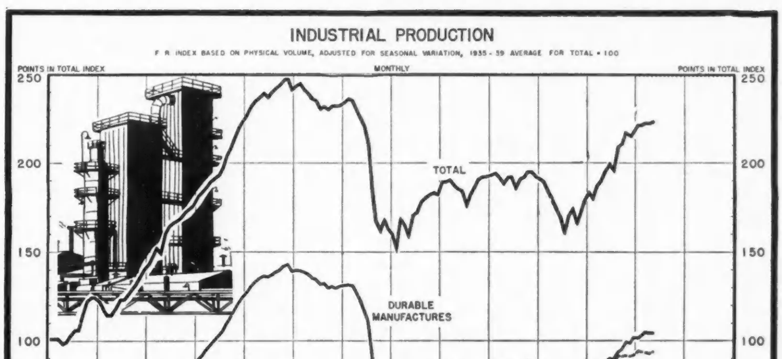
"Normalcy" Ahead?

A pseudo tendency toward "normalcy" will prevail in many directions, as a result of "peace" psychology. Already we see this influence at work in Washington where Congress is trying very hard to weaken existing control measures, where doughty fighters for a smaller tax increase than demanded by the administration are growing in strength, and where the President's attempts to extract over 8 billions from the national purse for "foreign aid" are met with sour grimaces. A national campaign is coming up next year and, as usual, those running for office want to make as few enemies among the voters as possible.

If congress, as is likely, weakens the controls Mr. Wilson possesses over our economy and, as Senator George wishes, increases taxes on a lower level than wanted by the President, this will mean that in the estimation of Congressional expects the urgency is now out of the situation and the results are bound to be reflected in other directions. For example, armaments production, while in no material way decreased is likely to be spaced out differently so that its impact will be spread out over a somewhat longer period than would have been the case without the Korean cease-fire. This probably will have the effect of modestly easing restrictions on metals and other goods in comparatively short supply so that a demand may be expected to modify cuts for civilian use.

During the next few months at least, it may be expected that the government bureaus involved will lend a more sympathetic ear to manufacturers for civilian use so that while there will be no general abandonment of cutbacks in that branch of the economy, at least further cuts, as planned for the end of the year, will probably not be put in motion. The following industries are typical of those that may be affected by this prospective amelioration: radios, TV, washing machines, refrigerators, ranges, furniture and other similar products.

One of the almost certain results to flow from an ending of hostilities is an increase of labor troubles. Wage formulas are uncertain pending final enactment of legislation, due very soon. It seems certain that a determined effort will be made to break the present restrictions. Already, it is rumored that some companies are paying wages above ceilings, under the pressure of the short labor supply in a number of industries. The Revenue dept., of course, does not look favorably on such maneuvers, and tax penalties for violations may be expected. In any case, the very high cost of living is creating a power-



ful potential movement among labor circles to up wages again, with its baleful possibility of renewed strikes, especially now that they will feel free to act with no shooting war going on. Based on past experience with the government's tactics with labor, especially in an election period, it is doubtful that there will be any real effective resistance to the coming demand for higher wages, although employers will argue that with the cost of living no longer rising, there is no further need for wage hikes.

Tax Prospects

Since the ending of hostilities will produce some relaxation in the nation's attitude towards the sacrifices that must be made in the continuing cold war, in no place will this be more evident than in the general outcry for a smaller increase in taxes than demanded by the Administration. The latter is on the horns of a dilemma for it appreciates that there can be no essential change in our budget for defense as long as Russia remains a formidable threat, and at the same time it understands that the new popular mood finds present burdens almost intolerable and that the nation does not look enthusiastically upon having them increased, especially now when it seems that the sound of gun-fire is about to die away. The President has asked for a 10 billion dollar increase in taxes and the House came out with something in the nature of a 7.2 billion increase. Now apparently Senator George is plumping for only a 5 billion raise. The chances are that the final bill will come closer to the latter figure. In any case, this will be the last tax bill until 1953, unless of course we are engaged in a global war by then.

The price control act, now in its last stages of discussion in Washington, at this writing, does not appear to have a favorable future. Due to the pressure of special groups, so many amendments have been added, that if allowed to pass, would weaken the over-all government effort to control prices. This drive was in evidence before the Kaesong meetings and has gained added momentum with the prospect of peace. It need not be added that while controls thus far have not proved a conspicuous success, failure to provide a strong control bill may add fuel to the fires of inflation which, while banked down at present may flare up again later on. It must be also considered that a weak control bill may bring labor reprisals.

Commodity Prices Drift

We come now to the present position of commodity prices in general. As stated, the price boom was flattened out about four months ago and did not wait for the Korean cease-fire to evaporate. For example, the U. S. Labor Dept. index of 28 basic commodities shows that this figure stood at 376.9 four months ago and now stands at roughly 340. Thus approximately 40% of the entire advance in commodities since a year ago has been lost. At that time the index stood at 269.4. Immediately after the Malik statement at the end of June, the effect was witnessed in an abrupt decline from 350.2 to 339.3. Commodity futures have been in a slump since April and the Dow Jones Commodities Index which stood at about 215 that month is now about 180.

Declines in the primary markets usually take some time before they can be felt in the things that consumers buy. Nevertheless, the effects are already apparent. The sensational department store sales several months ago were merely the prelude to a general slackening of prices in consumers' goods. The present situation is extremely spotty and with the public still whetting its appetite for lower prices it is not likely to rush in to buy now that it thinks it has things coming its way for a change. Normally, a war's end brings an upsurge in pent-up demand but in this case the situation is different in that there is no paucity of supplies. For the next few months therefor, we are likely to have a somewhat soft price situation which should gradually become more stable as the effects of the war ending wears off and consumers attempt to re-supply themselves with needed goods. Business opinion sampled throughout the country, thinks that prices will have to come down about 6-8% to attract large public consumption again.

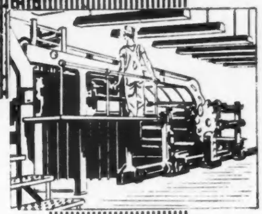
On the credit and financial side, we have a confused picture. Credit restrictions have proved quite effective in reducing consumer demand in the past few months as a measure in the government's efforts to half inflation. These have taken two forms: first, the operation of Regulation X, affecting housing, and Regulation W, affecting consumers' credit, and the efforts of the (banking) voluntary investment committee; second, restoration of freedom of action by the Federal Reserve Board with respect to central bank credit. With the unpegging of government bonds, the Federal Reserve commenced to exercise its braking power of credit expansion. All this has exerted a powerful influence on prices of all securities which have fallen in all categories, bonds and preferred stocks as well as common stocks. A fight will now occur with regard to continuation of restrictive credit regulation, X and W, especially now that the Korean war seems drawing to a close. The change in public psychology and the needs of those industries specially affected, will commence to exert pressure on Congress for an amelioration so that their sales can be expedited. It is doubtful much success can attend these efforts for the time being but there is no doubt that the arrival of a more peaceful world situation, will encourage renewed attempts at relaxation of these regulatory measures. The final disposition of this problem, of course, lies in the hands of the Federal Reserve Board, unless Congress should intervene.

Cut-Back in Defense?

While the prospect of peace in Korea has exerted an unsettling act and probably will continue to do so during the next few months, we must consider whether these comparatively adverse conditions will not disappear as the enormous armaments program acquires momentum. This of course will depend on whether Congress will feel that the time has come to cut-back spending for defense purposes. The present rate of actual expenditures for defense is some 600 millions a week and will rise to 1 billion weekly at the end of the year. Unless altered by Congressional fiat, the figure may rise to 1.25 billions weekly by next summer. The President and the chief officials of the government have warned that regardless of the outcome in peace negotiations in Korea, spending for defense must not be cut. They feel that world conditions will remain precarious for a long period and that the national security would be risked by any important change in plans for defense preparations. Although arguments will be heard back and forth during the (*Please turn to page* 472)

The Attraction of...

Defensive Stocks At This Time



By GEORGE W. MATHIS

Two primary factors largely account for the recent rise in popularity of so-called defensive stocks: (1) The promising outlook for an early cessation of hostilities in Korea which would encourage hope of relaxation in inflation pressures which therefor might set in motion a thorough corrective market reaction and (2) the growing conviction that regardless of international uncertainties stocks have advanced to a level where a downward readjustment is warranted. Whatever the motives may be that have induced investors to turn their attention to less volatile issues for refuge it is not difficult to find persuasive reasons for considering the advisability of a cautious attitude.

Defensive stocks are to be found chiefly in the broad consumers industries groups. The most popular categories are public utilities, foods, tobaccos, banks, chemicals, amusements, retail stores, soaps and vegetable oils, soft drinks and proprietary drugs. Anyone familiar with recent market trends will observe that few stocks in these industries have shown impressive gains. The exceptions are chemicals and drugs—at least, many chemicals and most ethical drugs. Shares in most of the consumer goods lines have been neglected because most of the industries they represent are penalized by inflationary forces. And for the last year stocks likely to benefit most from inflation have commanded greatest investment appeal.

Accordingly, investors willing to place greater reliance now on non-glamorous groups find that a wide variety of seasoned issues offer not only the prospect of steady income and a fairly generous return but also the hope of reasonable market stability. A study of a broad list of issues in the industries previously mentioned shows that a substantial number may be found at price levels not not far above their average quotations for 1949, when the current advance began. Shares of most variety chains, for example, have been drifting along in a comparatively narrow range for months barely above their 1949 lows. Representative department store stocks have risen only moderately from lows of the last two years and still are well below their 1946 peaks.

Defensive Stocks Quiet

Thus, whereas heavy industry stocks have either surpassed their 1946 bull market highs or have closely approached levels of five years ago, the great majority of defensive stocks in consumer goods lines have accomplished little. For this reason alone the less exploited defensive issues should have appeal at this time.

It is not the puropse of this discussion, however, to expound the merits of defensive stocks to the detriment of other groups. Rather it is the intent to draw attention to the characteristics of certain industries and to present thumbnail sketches of representative stocks for the benefit of investors who feel that particular issues may fit into their investment programs. Supplementing these comments, a comprehensive list of stocks is presented in the accompanying tabulation to illustrate the theories under discussion. With the benefit of statistical information shown here, the reader may be able to gain a better perspective of investment objectives.

Attention also should be called to stock groups discussed in our reappraisal series in this issue—food and dairies as well as tobaccos. The most popular defensive issues favored by investors may be found in these categories. Another industry that also deserves consideration in this connection, soft drinks, was the subject of a timely review in our previous issue.

The Seasoned Groups

Aside from these groups, seasoned stocks with greatest defensive appeal at the moment are to be found in public utilities, variety and grocery chains and perhaps amusements. Inasmuch as many seasoned stocks in variety retailing currently are available well below their highs of 1946 and not far above poorest levels of the last two years, it may be well to consider typical stocks in this classification. Variety chains have broadened their merchandise lines in recent years to include items ranging in price to as high as $5. Greatest emphasis, however, still is

placed on goods selling at less than $1, chiefly articles regarded as consumer necessities that ordinarily are easily carried by the purchaser.

Variety Chains Stable

These retailers ordinarily experience comparatively little improvement in business in boom periods, but on the other hand sales recede only slightly in slack times. As consumer income falls, customers become more careful of their spending habits and turn to lower priced goods in the variety chains. In uncertain times, moreover, variety chains are less vulnerable to inventory losses than are department stores and specialty shops because a higher percentage of goods handled consists of staples and inventory turnover is relatively more rapid than in the case of distributors of "hard goods" or fashion apparel.

Popular stocks in this group have been selling lately on a basis to afford a return of about 6 per cent on indicated dividends. Although prospects of increased disbursements are not regarded as especially strong, generally speaking, current rates appear well protected and yields of as high as 6 per cent for seasoned issues of this type are generous. For purposes of illustration, it may be well to examine several of the more important of these deflated issues in some detail.

The F. W. Woolworth Company, operating more than 1,900 outlets in this country as well as in Canada and Cuba and controlling a similar chain of more than 750 stores in Great Britain, is regarded as the world's largest variety chain organization. Development has virtually reached maturity, and growth in recent years has been more on diversification of merchandise than on extension of outlets. Earnings have ranged from slightly below $4 a share to about $4.50 in recent years as sales volume gradually has climbed (partly as a result of price inflation) to more than $600 million annually. Dividends appear to have stabilized at $2.50 a share (including 50 cents extra). Incidentally, the company's investment in its British affiliate carried on the books as slightly less than $31 million had a market value at the beginning of the year of almost $200 million.

S. H. Kress & Company, regarded as the nation's fourth largest variety chain, concentrates activities in the South and West. Stores number less than 300 and have not increased in number importantly in recent years. Several have been enlarged and modernized to keep pace with competition. Sales have fluctuated comparatively little at slightly more than $150 million annually. Earnings have ranged from

Statistical Data on Defensive Stocks

	Net Sales or Revenues (Millions) 1st Quar. 1951	Net Sales or Revenues (Millions) Full Year 1950	Net Per Share 1st Quar. 1951	Net Per Share 1st Quar. 1950	Net Per Share Full Year 1950	1950 Div.	Recent Price	Div. Yield	Price Range 1950-51
Abbott Laboratories	$ 24.0	$ 73.5	$1.02	$ .78	$2.91	$2.35[12]	55	4.2%	59½-39¾
Allied Chemical & Dye	121.8	408.0	1.25	.95	4.65	3.00	70	4.2	71¼-50⅛
Amer. Gas & Elec.	178.3[1]	167.7	5.01[1]	4.48[2]	4.86	3.00	56	5.3	56½-43¾
Amer. Home Products	48.9	164.2	.71	.79	3.06	2.00	33½	6.0	34¾-25⅛
Amer. Tobacco	209.4	871.6	1.29	1.24	7.17	4.00	61¼	6.5	76½-59
Beneficial Loan Corp.	14.6	44.5	.86	.84	3.12	2.00[12]	28⅛	7.1	28⅜-20¼
Cleveland Elec. Illum.	20.6	70.0	1.11	.87	3.40	2.40	47½	5.0	47¾-38⅜
Colgate Palmolive Peet	72.7	211.8	2.04	1.79	7.66	3.00	48½	6.2	55½-37⅜
Consolidated Edison, N. Y.	118.8	392.7	1.11	1.11	2.44	2.00[12]	31	6.4	33⅝-26⅛
Consolidated Natural Gas	54.5	134.7	3.29	2.56	5.03	2.25[12]	55	4.1	56 -40⅛
Corn Products Refining	......	178.0	1.30	1.27	8.44	3.60	71¼	5.0	78¾-62
El Paso Natural Gas	48.3[3]	38.6	2.77[3]	1.77[4]	2.32	1.60[12]	27⅝	5.8	28⅝-21⅜
First National Stores	......	371.8	......	......	3.74	1.75	37¼	4.7	44½-32½
General Amer. Transport	28.6	87.6	1.19	1.09	4.95	3.00	48⅜	6.2	58¾-45
Household Finance	14.9	53.0	1.09	1.20	4.09	2.40[12]	36⅜	6.6	38⅜-29⅝
Kroger Co.	461.6[6]	861.2	1.50[6]	1.54[7]	3.56	1.87	33⅜	5.6	39 -26½
Liggett & Myers Tobacco	128.7	530.5	1.43	1.40	7.06	5.00	68⅞	7.2	89½-66
May Department Stores	91.2	416.6	......	......	3.46	1.50	32¾	4.6	36 -22¾
Pacific Lighting	117.3[5]	114.5	5.42[5]	3.29[8]	5.88	3.00	51¾	5.8	55⅝-48
Penney (J. C.) Co.	351.9[9]	949.7	......	......	5.46	3.50[12]	68½	5.1	74½-53½
Philadelphia Electric	160.7[3]	155.5	2.22[3]	2.04[4]	2.31	1.50[12]	26¾	5.6	28⅝-23⅝
Pitney Bowes, Inc.	5.9	21.6	.36	.41	1.77	1.00	16⅛	6.2	19⅞-14¼
Reynolds Tobacco 'B'	182.6	759.8	.78	.74	3.73	2.00	32½	6.1	39⅞-31⅞
Sears Roebuck	1,065.4[10]	2,556.3	......	......	6.08	2.75	53⅝	5.1	58 -40
Standard Oil of Indiana	362.6	1,302.9	2.21	1.62	8.09	2.00[13]	63½	3.1	69⅞-42⅛
Sterling Drug	40.9	138.7	1.06	1.02	3.41	2.50	41½	6.0	41½-34
Union Carbide & Carbon	224.7	758.2	1.01	.95	4.31	2.50	60⅜	4.1	62¼-40⅛
Woolworth (F. W.) Co.	297.6[11]	632.1	......	......	3.83	2.50	42½	5.6	51 -41⅝
Wrigley (Wm.) Jr., Co.	18.0	72.1	1.27	1.70	6.11	5.00	75	6.6	89¼-70

(1) 12 months ended May 31, 1951
(2) 12 months ended May 31, 1950
(3) 12 months ended April 30, 1951
(4) 12 months ended April 30, 1950
(5) Year ended March 31, 1951
(6) 24 weeks ended June 16, 1951
(7) 24 weeks ended June 17, 1950
(8) Year ended March 31, 1950
(9) 5 months ended May 31, 1951
(10) 5 months ended June 30, 1951
(11) 6 months ended June 30, 1951
(12) 1951 rate
(13) Plus stock

slightly more than $4 a share to a trifle above $5 a share and dividends appear to have stabilized at $3 a share after having risen to $4.25 a share in 1948 with benefit of extra distributions. Real estate holdings are somewhat above average, with almost half of store properties owned.

Retail Group

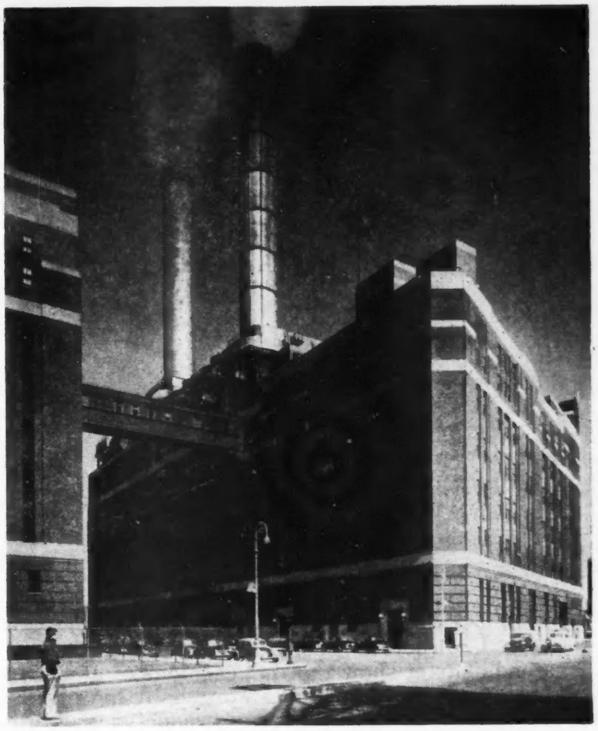
In the retail group, apparel merchandisers and grocers probably deserve consideration, for representative stocks in these categories are well deflated and should fare well in the sort of economy that is to be expected. Typical of these are J. C. Penney Company and the Kroger Company. The former has been growing steadily, especially in the West, until outlets have exceeded 1,600, chiefly in comparatively small communities with populations of 50,000 or less. Popular lines consist largely of low to medium priced wearing apparel for women and children, certain dry goods lines and merchandise appealing chiefly to rural populations. Stores are occupied mainly on long-term lease arrangements. Earnings have been edging upward in recent years in reflecting expansion of volume and good control over expenses. A conservative dividend policy has held distributions to approximately half of net profits.

In the grocery field, Kroger is widely known with its chain of more than 2,000 stores located chiefly in the Middle West. Management long has stressed emphasis on self-service super-markets as the most economical method of food distribution. Sales have risen steadily, partly in reflecting catering to larger populations and, of course, in taking into account inflationary trends. Volume has almost tripled the rate immediately preceding World War II. Earnings also have climbed in a corresponding ratio with net profit in recent years ranging above $3.50 a share. Dividends have fluctuated a bit in recent years in response to extra disbursements and adjustments to the 2-for-1 split, but the current rate appears fixed at $1.60 annually.

Utilities have gained wide popularity as defensive issues, for they have been "put through the wringer" in the last fifteen or twenty years and have steadily improved their financial position. They have fared better than some other groups, for a change, in recent tax legislation, and all indications now suggest that they may be squeezed relatively little by excess profits taxes as well as by pending boosts in corporate levies. Adoption of the House proposal for repeal of the 17-year-old excise tax of 3½ per cent on revenues derived from the sale of electric current would go far toward counteracting a boost in the regular tax rate.

American Gas & Electric and Philadelphia Electric are among prominent representatives of the power and light industry. The former serves a highly industrialized area in Michigan, Ohio, Indiana, Virginia, Kentucky and Tennessee. Earnings have been advancing consistently to a level within striking distance of $5 a share and dividends gradually have been pushed up to $3 annually. Even at prospective higher rates in view, net profit this year may come to $5 a share, against $4.86 in 1950, inasmuch as savings in taxes resulting from repeal of the excise levy might mean as much as 25 cents a share.

Philadelphia Electric, serving a highly residential community as well as important industries, may show earnings this year comparing favorably with the 1950 showing of $2.31 a share, best in many



Consolidated Edison's huge plant on the East River side of Manhattan

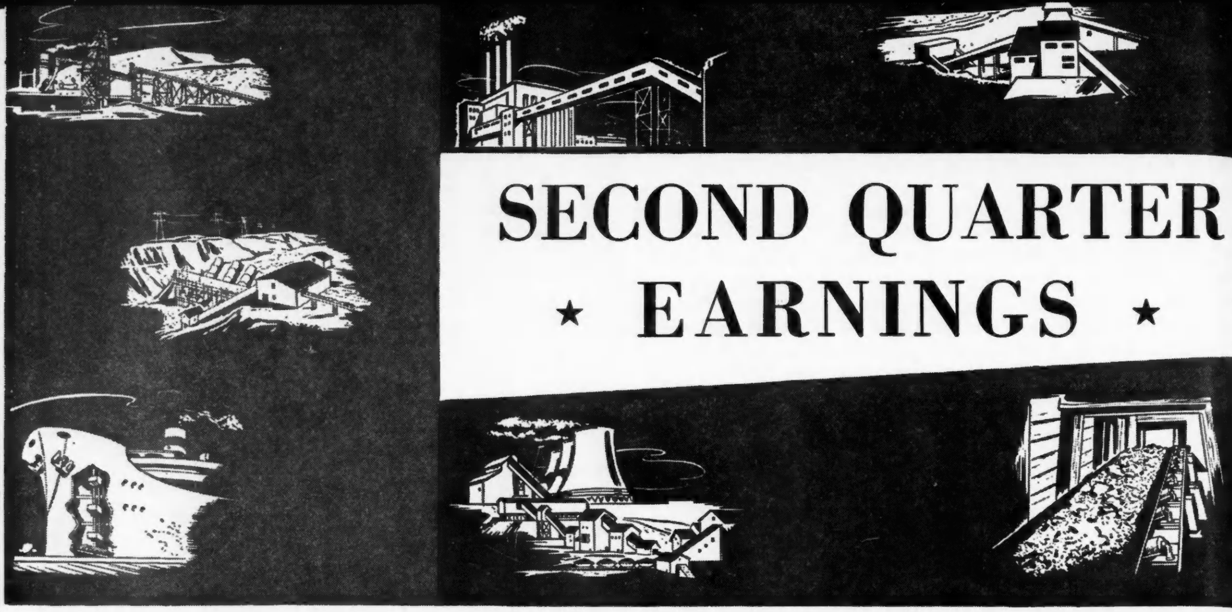
years. Fairly substantial tax savings are in prospect for this company. Dividends have been raised to a $1.50 annual rate.

Chewing gum manufacturers come in the consumer goods defensive classification, for their volume of business ordinarily follows closely the trend of national income and growth in population. Prospect of a rapidly expanding "young fry" population in the next few years is favorable for these companies. Chief problem is the 5-cent tradition and keen competition that appears to prevent either an upward adjustment in prices or a decrease in size of the popular packages.

The William Wrigley Jr., Company is regarded as the world's largest producer of gum. Distribution is worldwide and exports are becoming increasingly important. Costs of raw material have been rising gradually, but increased mechanization in operations has helped to hold down manufacturing expenses. Earnings have been climbing since the war, when margins were squeezed by scarcities of materials and by price ceilings. Dividends paid at the rate of 25 cents monthly have been supplemented by extras to indicate a $5 annual rate plus stock.

Colgate-Palmolive

In the soap and vegetable oil section Colgate-Palmolive-Peet is a popular example. It is one of the three largest companies in its field. The fact that about half of sales volume comes from abroad and therefore is a source of earnings exempt from excess profits taxes is interesting. Earnings are influenced considerably by inventory fluctuations, but have averaged well above prewar experience in recent years. Dividends seem to have stabilized at $3 a share annually including a year-end extra of $1 a share. (*Please turn to page* 474)



SECOND QUARTER ★ EARNINGS ★

By J. C. CLIFFORD

Corporate reports now being issued for the second quarter show that net earnings of a majority of companies continued at an unusually high level as a result of the record volume of production and trade. Increased reserves for payment of federal income and excess profits taxes, including allowance for the further stepping-up of rates now pending in Congress, were more than taken care of by increased operating earnings, so that net income after taxes was moderately higher than in the second quarter of 1950—before the war outbreak in Korea and the ensuing boom.

A comparison of the 1951 first and second quarters, however, shows a moderate decline, due to the persistent rise in taxes and other costs. Moreover, the quarter just completed produced substantially lower earnings than the 1950 third and fourth quarters, and was in fact the poorest in a full year. Thus the sharp quarterly gains over a year ago that have featured the financial news for a full year are now drawing to a close. It will be the exceptional company indeed that continues, in the face of still higher income taxes, to show quarterly gains as compared with the post-Korean boom. Aside from these overall trends, a number of other industry and general trends are discernible from the figures of individual companies.

Industry Trends

Among these other trends, two of the most outstanding are the divergent effects upon net income of a sales volume either expanding or stationary, and the stabilizing effects upon net income of the present high federal tax rates which tend largely to offset the fluctuations in operating earnings. As to the first trend, based on sales volume, the industries —aside from transportation, public utilities, and finance—might be divided into perhaps five different groups depending upon degree of expansion. Consumption goods producers which have had the least expansion in sales volume, and which therefore have been unable to pass on the higher income taxes and have absorbed them in lower net income, include baking, dairy products, miscellaneous food processing and packing, soft drinks, brewing, distilling, tobacco products, drugs, soap, and cosmetics. Meat packing is suffering an additional squeeze of high livestock prices against fixed selling prices, plus some holding back of cattle marketings.

Of course, not all companies among these consumption goods industries experienced a decline in earnings. Moreover, most of such companies are still doing quite well, despite the fact that they may appear to be situated relatively less favorably than many others.

Second are those industries which have had a year of tremendous boom based upon scare buying of consumers' durable goods following the outbreak in Korea, but which now are being drastically curtailed by restrictions upon the use of materials and upon instalment credit. These include automobiles, practically all types of household appliances, furniture, house furnishings, electrical apparatus and television, heating and plumbing equipment, hardware, tools, and building supplies.

Next are the "growth industries" which, because of their new products and of public demand, seem to enjoy an above-average rate of long-term expansion, including chemicals, petroleum refining, paper products, synthetic textiles, and rubber goods. Reports by many companies in these lines show that the growth factor has more than offset the sharp rise in income taxes.

Record Steel Production

Fourth are those basic industries which supply raw materials and parts to the other industries and thus are active whenever production generally is active—regardless of whether the activity represents a boom in civilian or in war goods. These are the industries of steel, nonferrous metals, machinery, railway rolling stock, office equipment, and various metal products, as well as coal and metal mining. Steel output smashed all previous records for June, the second quarter, and the half-year. Current production of over 2,000,000 tons weekly has almost out-

on the supplies of scrap. Price ceilings on machine tools are being lifted by government edict in order to spur production. Railway car builders are having their third-quarter allocations of steel increased because of the critical needs of the railroads in handling the mounting defense traffic.

Fifth and last are those lines dependent to a major extent upon the national defense program, either by an expansion of their regular facilities—such as aircraft and ship building—or by the shift now taking place from peacetime goods—such as electrical apparatus, office equipment, farm implements, hardware, tools, and a wide range of other products.

Tax Effect on Income

It is perhaps in this group of industries that the greatest uncertainties in the outlook for earnings will be found, since their future prosperity will depend upon their ability to obtain government contracts, and then to solve the numerous problems of supply, labor, production, costs, and taxes. Their interim and annual reports will be subjected to unusually close scrutiny for the progress they reveal from one quarter to the next—which will be of far greater significance than any historical comparisons with pre-Korean data.

The other notable trend mentioned above is the stabilizing effect upon net income of the high federal taxes. Existing rates are 47% for the normal and surtax, and 77% for the excess profits tax, with an overall tax ceiling on all three combined of 62%. Congress has pending a bill to increase taxes further, which has passed the House and is now before the Senate, setting rates of 52% for the normal and surtax and 82% for the excess profits tax, with an overall ceiling of 70%.

It is understood that the generally accepted accounting practice is to use these proposed tax rates in the computation of corporate earnings statements for the second quarter. Such tax rates are being made retroactive to January 1, 1951, as provided in the revenue bill, thereby picking up the additional tax reserves that will be needed against first quarter earnings, originally computed on the existing tax rates.

Interpretation of Reports

Judging from the statements already issued by industrial companies, the federal tax reserve for the first half-year 1951 takes, on an average, about three out of every five dollars of earnings before taxes. In the first half of 1950, such taxes took only about two out of every five dollars. With taxes now absorbing more than half of all (*Please turn to page* 474)

Quarterly Sales, Profit Margin and Earnings of Selected Companies

	Second Quarter 1951			First Quarter 1951			Second Quarter 1950		
	Net Sales ($ Mil.)	Net Profit Margin	Net Per Share	Net Sales ($ Mil.)	Net Profit Margin	Net Per Share	Net Sales ($ Mil.)	Net Profit Margin	Net Per Share
Avco Mfg.	$ 72.5	2.7%	$ .21	$ 86.3	4.1%	$ .40	$ 60.3	6.0	$ .52
Barker Bros.	7.1	1.3	.20	8.1	3.7	.79	6.9	2.9	.49
Beatrice Foods	54.7[1]	1.0	.50[1]	52.6	4.1	2.08	47.9	1.5	.67
Clark Equipment	31.3	5.1	2.36	28.7	4.9	2.11	15.5	8.1	2.35
Consolidated Vultee	83.9	2.8	1.01	61.0	2.8	.74	42.3	3.7	.67
Dana Corp.	47.1	6.8	1.25	43.1	3.8	.64	33.3	11.5	1.51
DuPont	387.2	13.7	1.24	382.8	15.5	1.26	314.5	21.5	1.44
Eagle-Picher Co.	21.5	4.2	1.01	21.5	4.2	1.01	14.4	4.3	.71
Endicott Johnson	75.5[6]	1.1	.91[6]	......	—	—	55.6[7]	1.5	.90[7]
Eversharp, Inc.	4.2	10.5	.45	4.5	8.2	.42	3.9	8.4	.33
Hercules Powder	......	......	1.40	55.8	7.1	1.46	38.0	9.5	1.33
Kelsey Hayes Wheel	29.0	4.5	2.13[2]	24.3	6.1	2.40	24.3	6.7	2.67
Kroger Co.	461.6[8]	1.1	1.50	......	—	—	381.3[9]	1.4	1.54[9]
Loew's, Inc.	38.9[3]	3.4	.26[3]	54.1[4]	4.1	.43[4]	39.3[5]	2.6	.20[5]
Mathieson Chemical	......	......	.98	23.5	12.3	1.08	20.5	10.7	.81
McCord Corp	10.4	5.0	1.30	9.4	5.7	1.34	8.2	8.6	1.78
Mead Corp.	26.2	5.7	1.32	26.0	6.2	1.45	19.9	6.6	1.71
Monsonta Chemical	71.8	9.0	1.30	67.9	9.1	1.25	53.5	13.6	1.58
Mullins Mfg. Corp.	14.6	6.1	.73	18.9	7.0	1.06	13.0	10.4	3.18
Murray Corp. of America	41.2	6.6	2.68	33.0	4.5	1.46	33.2	8.0	2.71
Plough, Inc.	3.9	3.1	.27	4.5	4.0	.40	4.0	4.8	.43
Robbins Mills	7.4	11.1	.98	11.4	10.5	1.43	7.9	12.8	1.22
Seeger Refrigerator	28.2	4.6	1.21	21.5	4.0	.80	26.8	8.5	2.08
Shamrock Oil & Gas	7.0	13.8	.72	7.4	17.6	.97	6.5	13.7	.66
Sheaffer (W. A.) Pen Co.	6.1	11.2	.85	5.3	7.1	.47	4.2	13.1	.68
Superior Oil Co. (Calif.)	16.4	22.6	8.76	15.4	25.5	9.31	13.0	12.5	3.86
Transue & Williams Steel	—	—	1.46	3.3	5.0	1.20	2.2	4.7	.76
Underwood Corp.	—	—	1.68	19.1	6.1	1.61	12.2	4.3	.72
Walker (Hiram) Gooderham & Worts	—	—	1.41	102.6	6.8	2.40	76.0	7.8	2.08
Wesson Oil & Snowdrift	43.3	3.1	.93	57.8	2.9	1.20	44.0	6.4	2.20
Woodward Iron	8.3	18.1	2.14	8.0	18.3	2.08	6.8	22.5	2.17

1—Fiscal year ended Febr. 28, 1951.
2—On combined class "A" and "B" stock.
3—12 weeks ended June 7, 1951.
4—16 weeks ended March 15, 1951.
5—12 weeks ended June 8, 1950.
6—6 months ended June 2, 1951.
7—6 months ended June 3, 1950.
8—24 weeks ended June 16, 1951.
9—24 weeks ended June 17, 1950.

"PEACE" WITH GERMANY

By E. K. T.

WHITE HOUSE and democratic national committee soon will be confronted with the problem of whether a politician or a sound career diplomatist should be chosen as ambassador to free Japan. The idea of being the first post-war legate to Nippon has appealing publicity values and the politicos already are being heard from. But that country has major rehabilitation and other economic hurdles to surmount, needs trained and sympathetic contacts; more so, perhaps, because Australia and New Zealand, close-by neighbors, aren't in the mood to trust Japan and will reflect that attitude in their ambassadorial choices. Weighing for a political choice is the upcoming national political campaign.

GERMANY offers problems which are more on the military side than the diplomatic and President Truman is credited with an effective "selling" stroke by asking for a joint congressional resolution permitting him to call the War with Germany at an end. Occupation would remain, reparations would not be given up, and the Alien Property Custodian wouldn't close shop; but German nationals would have a load lifted from their necks, a large measure of national self-respect restored, and some international privileges reinstated. Contrast with the Soviet attitude was not lost on the Germans; it was invited.

CHOICE of Manly Fleischmann for administrator of the combined operations of the Defense Production Administration and the National Production Authority (which have been running pretty much on parallel tracks anyway) should give business and industry comfort. Unlike some other administrators in Washington, Fleischmann's policies are well known because of his World War I work in the War Production Board. He has never strung along with those who favored writing off normal business entirely in favor of all-out mobilization, has expressed the opinion they can exist side by side with proper admeasurement of respective needs and priorities, that privation isn't unadulterated virtue.

BECAUSE no one has worked out an approach, the year-after-year movement to require that air mail subsidies be separated from actual payments for carrying mail matter via air probably will go by the boards again. The job does not seem difficult on the surface for no one asks that the aviation companies be deprived of subsidies; all that's wanted is a bookkeeping separation so the Post Office Department get lift itself out of the red by relating postal rates to actual carrying and handling costs.

WASHINGTON SEES:

Charles E. Wilson, defense mobilizer, has pointed up a major problem in his progress report to the President, and his words will come back to haunt him. Wilson finds many localized manpower shortages throughout the land with an immediate impact asserting itself in the form of industrial bottlenecks.

The mobilization chief suggested a solution. Both labor and management will be on his back to translate it into action. Wilson cites the need for placing procurement orders in the areas of labor plenty, locating new plants in those regions, shifting workmen from non-essential to critical employment, and providing housing to keep pace.

Abensteeism and labor turnover were found taking their toll too. But it will be difficult to overcome those evils, Wilson concedes, since voluntary action is the only approach.

Congress will be plagued with demands that the new factories and supplemental housing spring up. The lawmakers will remember Wilson's acknowledgement of the need, "demand" that he supply it, fail to give him the money or the authority, forget it.

Management is going to demand something concrete in the way of shifting of workers from peacetime pursuits to their assembly lines. Wilson will get the demands, won't get the power to enforce shifts.

Difficulty is that Wilson is a businessman, a producer, not a professional politician. He's not accustomed to double talk and his report was concrete, not abstract. But it's being abstracted—in the union halls and by the manufacturers' associations.

As We Go To Press

The Capital's great guessing game today concerns what will happen If the Korean negotiations end speedily and successfully. The prizes for the right answers are high. The Defense Mobilization Administration is putting in almost frantic effort to condition congress to a policy of coming to a very slow stop, not an abrupt one. Conversations on Capitol Hill clearly indicate that the lawmakers aren't buying that one; they haven't been enthusiastic about legislating controls, defense funds including civilian defense support, and new taxes while the undeclared war was at its hottest, aren't inclined to pass such bills in peacetime.

Safest possible bet is that a truce would knock the pending appropriation bill right in the head. The projected 60 billion dollar outlay looks even beyond material production potentials as they exist or are likely to come into existence during the fiscal year. Many senators believe a sharp reduction would be realistic since, they say, it wouldn't be possible to pour the funds out fast enough to exhaust the appropriation -- unless the money is given away. Manpower recruitment would screech to a stop but the present military strength of 3 million men is likely to become a standard.

Congress already has clearly indicated what it would do with controls is given any encouragement by the world situation. The White House has failed to convince that dratic regulations on prices, wages, and distributive patterns are needed, had trouble with rent ceiling legislation, isn't satisfied with the laws now on the books but would have to be satisfied with even less. Even when Senator Kefauver is about, senatorial colleagues will bet you even money the new tax bill will not exceed 5 billion dollars - more than 2 billion under the house draft and about one-half the amount the asked and the Treasury still insists is necessary.

The more international-minded members of congress and of the Administration, frankly are worried about what the impact of a Korean truce would be on world relations. They feel they have a difficult job cut out for them: to prevent the isolationists from forcing drastic action, the nature of which would be to establish that "mutual assistance pacts" haven't been what was intended when this country was in danger, and other signatories now may go it on their own. While the United States has footed the bill to keep a world family together, some of the members have openly traded with the enemy, have been slow to contribute manpower or material to the Korean problem, it is being constantly reiterated in the Capitol.

The "impossible" has happened in congress: a group of house members has been organized, has engaged expert budgetary advice, and has proceeded to enforce a true economy even when it hits their own districts and pet projects. It has always been said with rather reliable probative evidence that every member of congress is in favor of cutting appropriations - for the other fellow's district. The civil functions bill is the congressional pork barrel; this time the house cut it from 640 to 514 million dollars. Ordinarily, the house increases the committee recommendation by log-rolling new items into it: "you vote for mine; I'll vote for yours."

The congressmen are southerners and not too keen about Mr. Truman's Administration, even though all are democrats. They were spurred to action, says their spokesman, when the President dared congress to cut appropriations. Their staff is headed by a long-time Bureau of Budget expert who's aware of departmental needs and can detect "fat" in a budget at considerable distance. Existence of the unusual bloc came to light when a constituent complained to Rep. A. S. Herlong of Florida that a pet project had been rejected. "I couldn't vote to reject the others and support my own," Herlong ex-

plained after revealing the setup. The congressman told all, except the name the lawmakers call their own group: "The Wrecking Crew."

Federal agency economists with one ear attuned to the Kremlin are taking inventory of the vanishing inventories in retail outlets and may come up soon with a suggestion to congress that it relax credit rules. That there was panic buying immediately after the Korean situation broke out is a matter of clear record. But it faded and didn't die in the ensuing months, with consumers buying far ahead of immediate needs or normal storing. Meanwhile, retail inventories grew and now that much of next year's needs are supplied the country experiences such merchandising anomalies as the "price war" in New York City which probably was designed as much to clear overstocked warehouses as to register approval of demise of the Fair Trade Act.

Many industries "made like mad" to beat the assured metals scarcities and the enforced conversion to wartime production. The buying habits of the early Korean days, plus the government regulations which are slowing the movement of many durable goods, finds the factories with stocks which the retailers won't buy for the very adequate reason that they can't sell them in the current market. Maybe, runs the thinking of some of the government merchandising experts, more favorable credit terms would move much of the merchandise already processed. Many of them think it's worth a try.

RFC Administrator Symington's promise to operate the lending agency "in a goldfish bowl" is being manifested in release of the names of lawyers who handled borrowing deals, and the fees they were paid. If anyone expected that area of RFC to produce anything sensational, he was doomed to disappointment. During the 12-months period ended April 30, fees passed the $550,000 mark -- two of them accounting for about 25 per cent of the total. But the deals were big ones, the negotiations protracted, and the personal attention of the lawyers somewhat constant. While the first listing of fees occasioned no critical comment, the observation was trenchant that a similar amount of money could buy a lot of patronage.

The fate of many resolutions pending before congress is in doubt but there is one which certainly is not: Senator Hendrickson's proposal that members of the upper house be required to confine debate to the subject under examination. The New Jersey member accused the senate of "80 years of rambling;" he pointed out enforcement of rule would save weeks of time each session. But the privilege of the floor is valuable to lawmakers. It is an inviting sounding board for political attacks and recriminations, an excellent place to make political speeches which can be reprinted at slight cost, mailed to the voters without postage expense.

Congress last year made a step in the right direction but probably didn't go far enough when it passed the District of Columbia tort act setting up a list of types of lawsuits which may be brought against the government without consent of congress. Civil actions involving contracts may be brought at once under the Court of Claims Act; damage suits previously were subject to examination before suit was permitted.

But committees still are flooded with claims and other types of private bills all of which require floor consideration before action can be completed. There is a movement afoot to set up a quasi-judicial agency to take over this work. The house judiciary committee, for example, has had a total of 1,514 private claims, immigration and naturalization bills referred to it in the first six month of this year. There are bills in the "active" file which have not advanced one step in three years.

Political headquarters of both parties, sizing up public sentiment just about an even 12 months before the national tickets will become known, come up with these conclusions: President Truman will be renominated, if he will accept; Senator Taft is leading the republican field, but could be toppled readily should General Eisenhower stop playing hard-to-get. Barring Eisenhower's entry, considering it only as today's outlook it's: Truman vs. Taft.

The Heaviest Tax Load Is Borne By Our Citizens!

By V. L. HOROTH

The all-important consideration in a successful negotiation of an armed truce in Kaesong, Korea, is, of course, the end to the loss of life. In addition an end to the fighting holds a number of promises for the harassed American taxpayer. A return to the cold war status on the international stage would at least give us a chance to catch our breath although, as the Director of the Defense Mobilization, Mr. Charles E. Wilson, recently pointed out, "the cutting of the defense program at this point is unthinkable.

If the Kaesong negotiations are successful, it is certain that the opposition to higher taxes and to the continuation of the controls, especially over prices, will gather momentum. More severe budgeting which would give the Army and our Allies what is needed, but which would keep down the various "Fair Deal" reform measures, is being more strongly urged than ever before. The House has already slashed to $7.2 billion the $10 billion tax increase requested a few months ago by the Treasury. It is probable that the Senate will reduce the figure further. During the recent hearings the aforementioned tax increase, Defense Mobilizer Wilson, while urging its adoption, nevertheless warned that "U.S. economy would not take too long" one tax boost after another without impairing its efficiency.

How Much Foreign Aid Is Necessary?

One of the most controversial appropriations, on which hearings before the House Foreign Affairs Committee are now being held, is the size of our foreign aid. Under this Program, the President asked for $9.5 billion for the 1952 fiscal year. The opposition is bound to center on the continuance of economic aid in view of the impressive accomplishments reported by both the ECA and the OEEC which is the European counterpart of the ECA.

The gist of the ECA report which covers the developments up to the end of last year is that Western Europe has not been in better shape since 1937. Here are some of the accomplishments made with the aid of the American taxpayer:

Industrial output in the Marshall Plan Europe this spring reached a new peak, some 40% above the 1938 level, and over 60% above 1947 when the ECA began its operations.

The *output of steel* rose currently to an annual level of about 55 million tons as against 43 million tons produced in 1938; it would have been even greater had it not been for the bottleneck of too little iron and steel scrap.

The *output of electricity* in Western Europe is now nearly 100% higher than before the war due to the extensive building of hydroelectric centrals with "the counterpart funds".

Textile production is nearly 40% higher than before the war.

Motor vehicle output is averaging about 150,000 units a month as against 82,000 units a month in 1938.

Agricultural production is running about 10% above the prewar figures.

Foreign trade is about 60% higher than before the war, with the monthly value of exports running at a level of about $2 billion, as against 772 million in 1938.

Intra-European trade expanded nearly 60% during the past three years, largely due to ECA pressure for the liberalization of trade. The OEEC report notes that the Western countries have learned "how to work together," and their "combined effort will be carried forward in the same spirit of determination and cooperation as have enabled them to overcome the past obstacles".

Gold and dollar holdings of Western European countries other than Great Britain, although still substantially below the prewar figures, have gained over $500 million since the currency devaluations in September 1949.

The dollar gap which in 1947 stood at $8 billion and which represented the excess of the payments for goods and services made to the dollar area countries over the receipts, was reduced to $1 billion in 1950.

According to the OEEC report, the Marshall Aid created in the Western European countries some $29 billion of real income: $7 billion helped to pay for the imports from the dollar area; $5 billion increased the investment in new plant and equipment to insure future production; $1 billion went for increased Government expenditures for better health and education; and $16 billion went to raise the standard of living nearly to the 1938 level.

Counterpart Funds

What's more, American aid has not only made possible the expansion of Western European productive capacity, but the counterpart funds—which are the deposits made in local currencies for the aid received—have been used to keep down public indebtedness. Through April 30, 1951, the equivalent of about $2 billion was used to write off public debt while the tax burden on the American citizen was being increased. In this way the British Labor Government was indirectly enabled to pay for the nationalization of the coal industry. The bonds issued to the former coal owners are now being gradually retired with the aid of the counterpart funds.

Government Revenues and National Incomes

	Year	National Incomes	Cent. Gov. Tax. Reven.	Ratios: Nat. Income to Cent. Gov. Tax Reven. (I)	Ratios: Nat. Income to All Fiscal & Social Charges (estimate) (II)
United States					
(billions of dollars)	1938-39	67	5.8	8.7	19.0
	1949-50	216	37.0	17.1	28.0
	1950-51	236	48.1	20.4	32.0
	1951-52 est.	265	61.0	23.0	34.0
United Kingdom					
(billions of pounds)	1938-39	4.8	.93	19.3	23.0
	1949-50	10.4	3.81	36.6	43.0
	1950-51	10.8	3,98	36.8	43.0
	1951-52 est.	11.6	4.10	35.3	43.0
Canada					
(billions of dollars)	1938-39	3.99	.50	12.5	20.0
	1949-50	13.17	2.58	19.5	27.0
	1950-51	14.30	3.10	21.6	28.0
	1951-52 est.	16.50	3.73	22.6	29.0
Australia					
(millions of A. pounds)	1938-39	814	94	11.5	14.0
	1948-49	1,955	554	28.3	32.0
	1949-50	2,265	567	25.0	29.0
	1950-51 est.	2,700	739	27.3	31.0
France					
(billions of francs)	1938	377	60	15.9	......
	1949	6,930	1,856	26.7	33.0
	1950	7,280	1,778	24.4	31.0
	1951 est.	7,770	1,997	25.9	32.0
Belgium					
(billions of francs)	1938	65	11.4	17.5	......
	1949	250	64.1	25.6	34.0
	1950	265	60.9	22.9	32.0
	1951 est.	290	64.1	22.1	32.0
Netherlands					
(billions of guildons)	1938	4.9	.74	15.1	......
	1949	14.2	3.93	27.6	33.0
	1950	15.5	5.39	34.8	40.0
	1951 est.	18.0	5.50	30.5	38.0
Sweden					
(billions of dronor)	1938	10.2	1.44	14.1	19.0
	1949	22.5	5.00	22.2	34.0
	1950	24.0	4.75	19.7	31.0
	1951 est.	26.0	4.90	18.9	32.0
Switzerland					
(billions of francs)	1938	8.7	.55	6.3	......
	1949	17.0	1.43	8.5	19.0
	1950	17.0	1.67	9.8	20.0
	1951 est.				

I—Ratio of Central (Federal) Gov. Revenues to National Incomes
II—Ratio of Fiscal and Social Charges to National Incomes

Europe Needs Nursing No Longer

Even though the ECA and the OEEC argue that the economic aid to "convalescent" Western Europe should continue so as not "to endanger the ground already gained," one cannot but question the advisability of continued economic aid in view of (1) the accomplishments already made, (2) the military assistance which we are giving despite the fact that ECA was intended to make the European countries self-supporting and able to provide for themselves the kind of military assistance we now are giving to them, and (3) the heavy tax burden which the American citizen is asked to carry in order to pay for our own rearmament.

As a matter of fact, the "convalescent" European economies of Western Europe can be much more damaged by their own stubborn insistence to maintain—for internal political reasons—the heavy expenditures for social and welfare purposes and (2) by high prices of raw materials, partly due to stockpiling tactics of their and our agencies.

In Great Britain, for example, the defense expenditures were nearly doubled. However, instead of reducing the expenditures on the social services and subsidies the 1951-52 budget has increased them still more. The National Health Service, which means new hospitals, drugs, and medical care for practically everybody, will cost the country some £470 million or about 5% of the national income. The inflationary impact of such spending need not be stressed. In France a similar situation exists. Between increased armament and social welfare expenditures it will be impossible to avoid adding fuel to France's old enemy, inflation.

Who Is Taxed The Heaviest?

The Europeans usually argue that we can well afford to pay for rearmament as well as the foreign aid bill because our taxes are still lighter than theirs. A study made specifically for this article indicates that—generally speaking—this indeed was the fact but is no longer as will be seen from the accompanying table which gives (1)the relation of the central (federal) tax revenues to national incomes, and (2) the relation of both central and local taxation as well as of social-security contributions to national incomes, of the nine countries selected only Great Britain and the Netherlands have during the current fiscal year a lighter tax burden than the United States.

In the United States, during the current fiscal year, the federal tax revenues will account for about 23% of our national income compared to less than 9% in the 1938-39 fiscal year. However, the overall burden of taxation, i.e. the federal and local taxes and social security contributions, will account during the present fiscal year for about 34% of our national income as compared with about 19% before the war. Thus in this country the fiscal and social security tax collections are already far in excess of 25% of national income, which as is generally agreed among economists is about the top degree of taxation a healthy economy can support without undue strain.

The table incidentally also shows that it is unfair to make the tax burden comparisons on the basis of central government tax collections only. In Switzerland, for example, the cantonal and other local taxes are larger than the central government taxes. Similarly, in the United States and in Canada, these local taxes represent a substantial additional burden which, however, is relatively light in Great Britain.

The table shows that the heaviest tax burden, around 43% of the national income is carried by Great Britain. The next heaviest taxes are being imposed in the Netherlands, while in most of the other countries of Western Europe the tax burden amounts to just about one-third or slightly less of national incomes, Switzerland absorbing just about one-fifth of the national income.

Limitations of Inter-Country Comparisons

In appraising the true burden of taxation, account must be taken not only of the bare percentage relation to the national income, but also of a number of other circumstances. A different degree of government participation in the economic life of the country requires lighter or heavier taxation. In Great Britain, where the Labor Government "nurses" the people "from the cradle to the grave," providing pre-natal care, maternity benefits, children's allowances, education, meals in school, subsidized food, subsidized housing, medical attention, accident and unemployment benefits, old-age pensions, and funerals, it is naturally necessary to collect larger taxes than in the United States where the costs of most of the above services must be borne by individuals as personal expenditures outside of the tax structure. Hence a true comparison of relative tax burdens would also have to allow for the financing of the same functions of the government.

Account should also be taken of the distribution among different pursuits. In France, for example, where a large proportion of the population consist of small farmers who are self-sufficient to an amazing degree, not only are the figures of national income understated, but the levying and the collection of taxes is extremely difficult. Still another difficulty is presented in the countries where the national income is close to the subsistence level, as for example, in India. There the margin of average income above the subsistence level is probably very heavily taxed in relation to other countries.

One can conclude that since the average American citizen must pay out of his own pocket such services as maternity care, health care, funerals, etc., which elsewhere are paid for by the government, he is probably carrying a tax burden heavier than in most of the Western Europeans, Great Britain and possibly the Netherlands. On the other hand we are unquestionably better off if one compares the ratios of taxation to the margin of average income above the subsistence level. That probably would be the fairest way of comparing the respective tax burdens. Unfortunately no one has yet attempted to compare tax burdens on that basis.

The remaining two tables cover national defense expenditures (in dollars) on the per capita basis, and the per capita public debt. It will be seen that our national defense expenditures are by far the largest on record, more than twice as high as in Canada, three times as high as in Great Britain, more than four times as high as in France and about ten times as high on the per capita basis as in Switzerland and Sweden.

National Defense: Per Capita

Expenditures in Dollars

	1950-51	1951-52	Percent of Nat. Income
United States	134	248	14.4
Canada	56	119	10.0
United Kingdom	44	78	12.1
France	42	57	11.1
Netherlands	23	36	7.6
Belgium	20	31	4.7
Sweden	25	23	3.2
Switzerland	21	23	5.0
Australia	15	36	4.9

Our per capita public indebtedness is also larger than that of any other country. Moreover, it has increased since 1938 more than that of any other country, if comparisons are made in terms of dollars. The explanation is, of course, that various devaluations have lightened the debt burden for individual foreign countries. However, the British still have the heaviest debt in relation to their national income.

The point is that European arguments may have been right about the relative weight of the fiscal and social charges in the past, but definitely they are not right now.

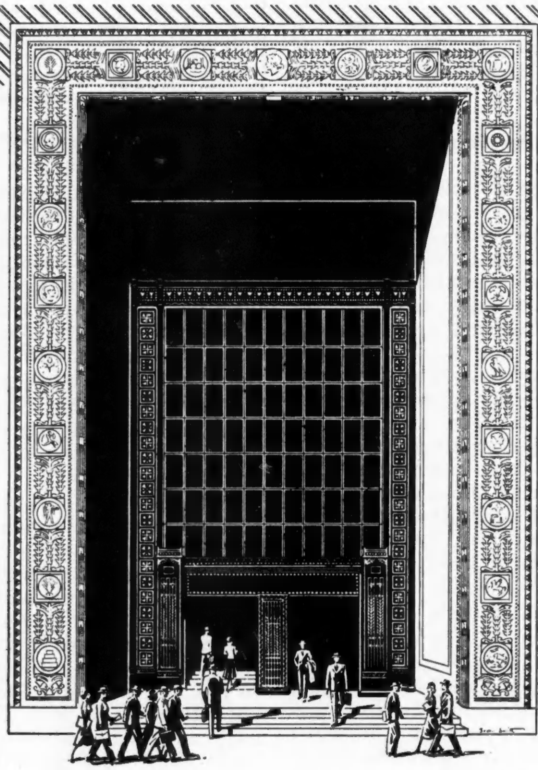
With the bottlenecks in our defense output removed and deliveries increasing, and with Western European rearmament getting into its stride, it may not be as necessary to push as relentlessly. If our colossal 140 billion rearmament program now planned for three years could be stretched, say, to three and one half years instead, it would mean that Mr. and Mrs. Average American Citizen would have a longer time to pay for it, and would not have to dig into their pockets quite as deep. Furthermore, if the tempo of rearmament could be slowed down somewhat, it might be possible to relax controls over business. These controls, while unable to prevent the post-Korean rise in prices, are now tending to prevent the downward price adjustment. The relaxation of controls over our economy, and some moderation in tax burdens and in the tax increases which the Government is planning might be just the remedy for the doldrums in which many business men find themselves.

Per Capita Public Debt and National Income

(In U. S. Dollars)

	Public Debt 1938	Public Debt 1951	1951 % of 1938	Nat Income 1951	Pub. Debt % of Nat. Inc.
United States	286	1,750	611	1,732	102
Canada	333	1,206	362	1,170	103
United Kingdom	711	1,428	201	637	224
France	264	324	122	510	64
Netherlands	250	600	240	474	127
Belgium	170	614	361	670	92
Sweden	92	352	382	761	42
Switzerland	149	464	311	900	52
Australia	639	780	122	734	106

Bank Earnings for the First Half
—Outlook for the Second



By J. S. WILLIAMS

Midyear statements issued recently by the large banks show marked contrasts with those of one year ago, reflecting the sweeping changes following the outbreak of war in Korea that have taken place in production, trade, prices, credit, and money. As the greater part of these changes occurred during the nine months ended with March 1951, however, after which the trends tended to flatten, the June 1951 quarter reveals only moderate changes.

Bank income accounts in five out of six cases show net earnings on the upgrade, with the increases in revenues from loans, investments, and most other sources still running ahead of the inescapable increases in operating expenses and in federal taxes. This means dividends being covered by liberal margins and gives further support to the high investment rating now accorded stocks of leading banks of New York and other cities. The favorable long-term outlook for bank stocks is based largely upon their excellent record of earnings ever since the depressed early 1930's, but their present attractiveness is enhanced also by market prices being so low relative to earnings and to book values.

A condensed summary of pertinent figures for a number of the larger banks having a wide investor following is given in the accompanying table.

Gross Income Up

Gross income is up this year, although not from all sources. The principal increase has been in interest collected on loans, reflecting both a large increase in volume of loans outstanding and a rise in rates of interest. Expansion in the loan total began with the outbreak of war in Korea and was sharpest in commercial loans, as a result of the boom in civilian goods, stepping-up of output, accumulation of inventories, and rise in prices that inflated dollar values. There was expansion in other types of loans also – real estate, and installment – the only exception being loans on securities which changed little.

This expansion of credit generally was checked, as already stated, around the first of April. Since then the total of loans has stabilized, although a considerable amount of new lending – including defense projects – has been offset by repayments on old loans. It appears that the voluntary credit restraint committees set up by the commercial banks and other private lenders are succeeding in their efforts to hold the inflationary creation of more credit, without the need for extending government control to cover all types of lending. In the two specialized fields where such government controls have been imposed – installment credit and real estate credit – the regulations W and X have acted as effective brakes in slowing down activities drastically. Other factors, of course, may also have contributed to this slowing down in the case of housing, automobiles, and appliances, including some saturation of markets, overproduction, raw material shortage, glut of inventories, and excessive borrowing.

While the total volume of bank credit outstanding is not expected to expand greatly in the near future, neither is it expected to contract. As more of the commercial and miscellaneous loans become liquidated, an offset should be increased loans specifically tied to financing defense plants and goods.

Accompanying the expansion in loan volume after Korea, interest rates on most all types of loans have been moving to the highest levels in ten years or longer. This advance in rates has quickly lifted bank earnings, but the full benefit will not be realized for another year or more, due to the fact that many loan agreements, including those for term loans, provide for fixed rates which cannot be revised upward until the time comes for renewal.

The long-term trend of interest rates is a matter on which there are always considerable difference of opinion. Without becoming involved in the various philosophies and technicalities of this complex subject, it seems safe to assume that the trend of interest rates generally will continue firm, in view of the action by the Federal Reserve Banks in lowering the pegs on government securities and permitting the entire pattern of interest rates to readjust itself upward. At the New York Reserve Bank, the rediscount rate, which exerts a powerful influence in determining the course of other interest rates, was raised successively in April 1946, January 1948, August 1948, and August 1950.

In contrast with the increases in outstanding loans and in the income from loan interest, the commercial banks as a whole have experienced decreases in their holding of government securities and in the income thereon. Liquidation of governments was a direct result of the expansion in demand for loan accommodation, inasmuch as the banks had practically no excess reserves available and in January 1951 had their legal reserve requirements lifted by the Federal Reserve Board. Most of the liquidation of government securities was in short-term bonds, notes, and certificates, with little change in treasury bills.

Offsetting the decreased holdings of U. S. issues, however, the banks obtained the benefit of a general rise in interest rates which limited the decline in dollar earnings. Inasmuch as the commercial bank holdings have always been concentrated in the shorter-term issues, which experienced the sharpest advances in interest rates, the resulting improvement in yields has been immediate and substantial.

Decline in Government Bonds

A problem, of course, has been presented by the drop in market quotations on government issues that occurred when they readjusted to the higher yield basis. Such declines in the market had the effect, theoretically at least, of wiping out paper profits or bringing about book losses. In actual practice, however, most banks have built up large unallocated reserves that could be used, to whatever extent necessary, for writing down government bonds without having to charge their current earnings. Moreover, in their bookkeeping of bond income, it is customary to amortize by regular monthly charges any premiums representing cost in excess of par value. Finally, it must be remembered that a rise in interest rates does not affect the collection at par of every issue at maturity, and since commercial banks turn over their portfolios rapidly, they stand to gradually work up their average yield every time that they re-invest.

Miscellaneous Bonds Up

These factors toward improved earnings are an important offset to the absence this year, because of declining market prices, (*Please turn to page* 472)

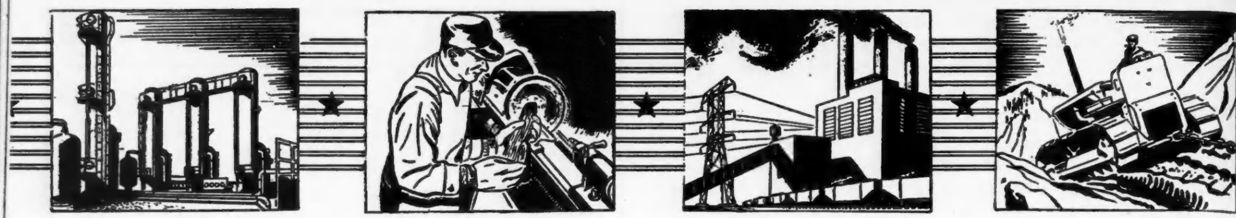
Interest Rates

Money Rates	*Year Ago*	*Today*
Commercial paper, 4-6 mos.	1.31%	2.18%
Bankers acceptances, 90 days	1.06	1.62
Stock Exchange call loans	1.63	2.12
Treasury bills, 3 mos.	1.17	1.60
Treasury certificates, 9-12 mos.	1.23	1.85
Treasury notes, 2-5 yrs.	1.47	2.02
Bank rates charged customers	2.60	3.02
F.R.B. of N.Y. rediscounts	1.50	1.75
Bond Yields		
U.S. Treasury, over 15 yrs.	2.33	2.63
Municipal, high-grade	2.09	2.12
Industrials—Moody's	2.66	2.91
Railroads—Moody's	3.15	3.29
Public utilities—Moody's	2.81	3.11

Statistical Data on Leading Bank Stocks

	Book Value Per Share 6/30/51	Book Value Per Share 12/31/50	Deposits 6/30/51 (Millions)	Deposits 12/31/50 (Millions)	Total Assets 6/30/51 (Millions)	% of Total Assets U. S. Gov't. Securities	% of Total Assets Loans & Discounts	Net Per Share* 1st Half 1951	Net Per Share* 1950	Div. 1950	Recent Price	Div. Yield
Bank of Amer. N.T.&S.A.	$17.21	$16.45	$6,316	$6,191	$7.021	20.7%	48.4%	$1.35	$2.16	$1.50	27	5.5%
Bank of Manhattan	32.62	32.26	1,243	1,212	1,243	27.5	41.4	1.25[1]	2.42[1]	1.40	27⅞	5.0
Bankers Trust	55.97	56.32	1,757	1,642	1,972	24.6	42.8	1.05	2.60	2.00	44	4.5
Chase National	48.27	47.70	4,793	4,871	5,227	26.4	36.2	1.37	2.83	1.80	36	5.0
Chemical Bank & Trust	46.70	46.72	1,588	1,552	1,764	24.6	38.8	1.69[1]	3.07	2.00[3]	42¼	4.7
Continental Illinois (Chic.)	103.73	101.74	2,338	2,378	2,553	44.7	22.1		8.02	4.00	90	4.4
Corn Exchange, N. Y.	64.63	63.70	733	778	784	49.1	15.4	2.43	4.83	3.00	61	4.9
First National of Chicago	224.24	218.70	2.326	2.404	2.521	30.0	40.2		14.31	8.00	235	3.4
First National of N. Y.	1,419.29	1,420.67	620	580	769	36.6	26.2	38.62	83.24	80.00	1230	6.5
Guaranty Trust	377.11	374.39	2,635	2,503	3,095	32.4	40.7	8.72	17.81	14.00	285	4.9
Hanover Bank (The) N.Y.†	114.27	113.47	1,563	1,616	1,729	32.4	34.0		7.78	4.00	89	4.5
Irving Trust	23.79	23.52	1,148	1,218	1,291	23.2	43.3	.67	.92	.90	19⅝	4.6
Manufacturers Trust	61.78	59.44	2,374	2,581	2,580	33.8	30.8	2.40[1]	4.63[1]	2.40	53	4.5
National City of N. Y.[2]	54.34	56.78	5.173	5.244	5.709	30.8	35.2	1.61[1]	3.70[1]	2.00	45	4.4
New York Trust	115.90	113.87	703	718	786	32.7	37.9	4.03	7.17[1]	4.50	99½	4.5
Philadelphia National	90.62	89.51	752	765	823	24.3	32.6		7.27	5.00	100	5.0

(†) Formerly Central Hanover Bk. & Trust Co.
(*) Net indicated earnings
(1) Net operating earnings
(2) Including City Bank Farmers Trust Co.
(3) 1951 rate



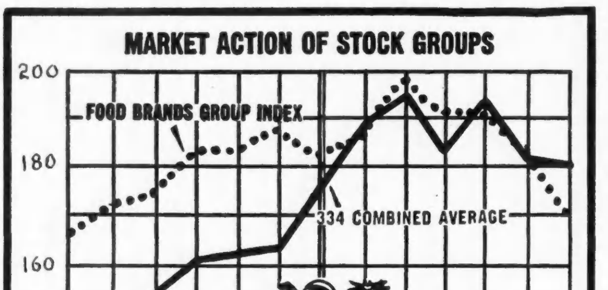
1951 Midyear Re-appraisals of Values, Earnings and Dividend Forecasts

★ ★ ★

Prospects and Ratings for Food and Dairy Stocks, Sugars, Tobaccos and Bank Shares

Part I

The prospect of an end of hostilities in Korea and uncertainty as to the impacts of such an event on the economy has created a good deal of confusion in the minds of many businessmen and investors. They wonder whether defense spending, the most dynamic factor in the economy today, will continue according to the schedule or whether there will be a slowdown in the rearmament tempo, or even a reduction in total outlays now contemplated. They wonder what may happen to controls, to prices and wages, whether current restrictions will be retained, relaxed or removed. And of particular importance to shareholders, they wonder about taxes—whether the stiff House-approved boosts will become law or whether final tax increases will be less.



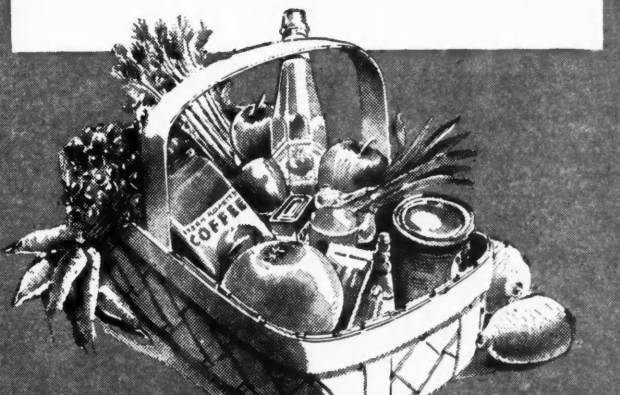
Despite almost daily reiterations by official spokesmen that a cease-fire in Korea will make no difference to defense plans, there is widespread conviction that in the absence of a shooting war, defense will lose steam with resultant profound repercussions. Securities and commodity markets have been reflecting this thought.

To assist our readers in arriving at sound investment decisions under the conditions likely to prevail, and in realigning their policies with the selectivity dictated by varying industry prospects in the months ahead, The Magazine of Wall Street in addition to its regular coverage of important developments at this time presents its Mid-Year Security Re-appraisals and Dividend Forecasts with particular emphasis on new trends likely to shape up, including possible temporary dip in business, a halt in inflation and a veering towards moderate deflation across currents in civilian goods production, new trends in consumer buying, etc.

The key to our ratings of investment quality and current earnings trends of the individual stocks—the last column in the tables preceding our comments—is as follows: A+, Top Quality; A, High Grade; B, Good; C+, Fair; C, Marginal. The accompanying numerals indicate current earnings trends thus: 1—Upward; 2—Steady; 3—Downward. For example, A1 denotes a stock of high grade investment quality with an upward earnings trend.

Stocks marked with a "W" in the tabulation are recommended for income return. Issues regarded as having above average appreciation potentials are denoted by the letter "X." *Purchases for appreciation should of course be timed with the trend and investment advice presented in the A. T. Miller market analysis in every issue of this publication.*

Outlook for FOOD AND DAIRY Companies *In The Second Half*



By STANLEY DEVLIN

Because most people like to eat, food and dairy processors usually fare well when industrial activity reaches a high level and consumer purchasing power expands. Full pay envelopes tend to encourage larger appropriations for delicacies. Moreover, threats of scarcities spur anticipatory buying of foods that can be stored—such as canned goods and some dairy products. It is not surprising under such conditions that steadily rising national income and intermittent scares have contributed to good business for most food processors. Prospects for the remainder of this year are reassuring although inventory accumulation in the hands of distributors and consumers seems unlikely to be repeated this autumn.

Narrower Profit Margins

With agricultural prices tending to hold at levels considerably above 1950 and demand well sustained, most processors appear headed for increased sales volume this year. Some of the larger concerns should experience gains of 20 to 30 per cent, while marginal companies that were fortunate to have abnormally large supplies last year to take advantage of military orders as well as urgent consumer purchases may not fare so well this year. It would be only natural for food consumers to be more discriminating in brand preferences so long as supplies are plentiful.

Profit margins generally are likely to be narrower with the result that most companies in this category may be headed for reduced profits. Such a trend would be in line with general industry, where higher tax rates have imposed burdens not easily shifted to consumers. Moreover, manufacturing efficiency had previously reached such a high degree of effectiveness that food processors have been unable to make any important further headway in combating rising labor costs. Generally speaking, however, labor costs are relatively low in relation to sales in this industry, and increased operating expenses have presented a less serious threat to profit margins than heavier tax burdens. Although most of the strong, well managed companies in this category have reasonably satisfactory tax shelter, the marginal companies which suffered declines in 1947 and 1948 are less fortunate in this respect.

In reviewing prospects for concerns representing various phases of the food industry, a comprehensive tabulation of latest available statistics and relevant comment is presented here. This is supplemented by the accompanying discussion of important recent developments relating to dairy products, packaged goods, baking and milling, canned goods and other branches of the industry. The general conclusion that may be drawn is that well situated concerns in these groups may be expected to do reasonably well this year.

Dairy Companies

Aside from beneficial effects of rising national income, dairy products processors are feeling stimulating influence of our rapidly growing young population. Children are primary customers of this branch of industry, and it is a well known fact that the growth in population in this country has reached an exceptionally high rate in the last decade. Milk production promises to compare favorably with last year's strong trend. Indications point to a rise to 400 pounds or more per capita consumption this year—a new high record. Only butter shows signs of turning downward, and even in this division the decline in consumption is much less than dairy farmers had feared as a result of repeal of punitive taxes on colored margarine. Incidentally, sales of margarine have increased only moderately as a result of the change in the product permitting coloring.

Military requirements promise to have an important effect on demand for food products, and this factor no doubt will contribute to establishment of new high records in milk consumption. Necessity for shipment of milk products abroad means in-

creased output of canned evaporated and dry milk. Moreover, the tendency toward increased expenditures on food at home points to a rise in ice cream sales after several years of downtrend. From an earnings viewpoint, the reversal in ice cream consumption is significant, for this item is an important money maker for most large dairy processors.

Distribution costs have increased—especially in the fluid milk division—and although government regulations permit shifting of increased costs to the consumer, higher retail prices tend to restrict consumption to some extent. Ordinarily, milk prices decline slightly in the summer, but this year reductions have been negligible. Higher prices paid farmers for raw milk and wage increases for dairy employees have offset possible lower retail prices. On the other hand, milk prices have not increased comparably with most other commodities. Hence, with consumer income rising, resistance on part of the consumer has had little adverse effect on sales.

Earnings of major dairy companies should compare favorably with 1950 results. Pre-tax income is expected to expand impressively in line with enlarged sales. Excess profits taxes seem likely to bring about moderately lower net profit for leading concerns in this group even though exemptions are reasonably satisfactory for such concerns as Borden and National Dairy Products. Dividend distributions should be as large as in 1950 and in a few instances may be more liberal.

Probably no other branch of food processing has felt the impact of increased purchasing power in the last 20 years. As family incomes have enlarged, especially among the working classes, larger porpor-

Pertinent Statistics on Leading Food Processors

	—Net Sales— Full Year 1950 —(Millions)—	Operating Margin 1950	—Net Per Share— 1st Quar. 1951	1st Quar. 1950	Full 1950 Year	1950 Div.	Recent Price	Div. Yield	Investment Rating	COMMENTS
Beatrice Foods W	$205.2[2]	4.2%	$ .50[1]	$ .67	$ 4.53[2]	$3.00	33½	8.9%	A	Further moderate growth in sales indicated but profit margins likely to be hurt by higher taxes and rising costs. Modtst year-end extra may mean $2.50 for year.
Beech-Nut Packing	68.8	10.7	1.14	.65	3.17	1.60	31⅜	5.1	B[1]	Including profit from sale of securities, earnings seem likely to range ahead of last year despite narrower margins. Dividend may remain at conservative $1.60.
Best Foods X	78.0[5]	14.1	3.08[3]	3.35[4]	4.56[5]	3.00	32½	9.2	B	Inability to offset adverse effect of higher taxes points to dip in earnings. Gain in margarine sales disappointing. Continuance of $3 dividend seems likely.
Borden Co. W	631.1	5.6	—	—	4.69	2.80	46	6.1	A	Increased volume and benefits of plant improvements point to wider profit margins which may boost earnings despite higher taxes. Dividends about same as in 1950.
California Packing X	222.8[2]	13.9	—	—	16.60[2]	5.50[17]	62⅝	8.7	B	Repetition of scare buying unlikely this year and lower margins in prospect, but results should remain above average.
Clinton Foods	77.0[8]	8.2	1.71[6]	1.80[7]	2.28[8]	2.40	30⅝	7.8	C+	Liberal dividend assured by recent extra. Growing popularity of frozen juices and promotional efforts give this company strong competitive position. Earnings and dividends about like 1950.
Consolidated Grocers	153.3[5]	1.5	2.50[9]	1.50[20]	1.71[5]	1.50[17]	16½	9.1	C[1]	expansion and margins may improve some-Volume expected to rise sharply from recent what, but higher taxes may bar gain in earnings. Liberal dividend to continue.
Continental Baking	155.1	6.6	.97	.41	3.97	1.60	17¾	9.0	C[1]	Wage increases and shorter hours point to narrower margins, since bakers may meet opposition to higher bread prices. Liberal dividend seems well protected.
Corn Products Refining X	199.6	16.4	1.30	1.27	8.42	[18]3.60[17]	71¾	5.0	A	Promise of increased corn yields and greater price stability for crop should mean increased volume and better margins for processors. Dividend appears secure.
Cream of Wheat	9.4	27.1	.36	.57	2.28	2.00	26⅜	7.5	C+	Stability of breakfast food market is favorable factor. Growth may be aided by population rise. Earnings expected to compare favorably with 1950 results.
General Baking	106.7	4.9	.29	d.08	1.59	.85	11⅛	7.5	C+	Dependence on bread and opposition to price increases may bring narrower margins. Earnings expected to dip slightly, but modest dividend appears protected.
General Foods	589.2[11]	8.5	—	—	4.58	2.45	41⅛	5.9	A	Rising costs and promotional expenses tend to hold down profit margins and heavy taxes point to reduced earnings, but $2.40 dividend seems well protected.
General Mills W	395.8[13]	5.2	—	—	5.87[13]	2.50	59⅜	4.2	A	Further moderate drop in earnings is indicated in fiscal year just beginning, due to heavier tax burdens and narrower margins. Dividends should hold at $2.50.
Heinz, H. J.	$170.5[20]	5.0%	—	—	$ 2.85[20]	$2.25	37¾	5.9%	—	Despite uptrend in business, sales may sag slightly this year in comparison with post-Korean boom. More liberal dividend indicated as result of stock distribution.

d—Deficit.
[1]—1st fiscal quarter ended May 31, 1951.
[2]—Year ended Febr. 28, 1951.
[3]—9 months ended Mar. 31, 1951.
[4]—9 months ended Mar. 31, 1950.
[5]—Year ended June 30, 1950.
[6]—6 months ended Mar. 31, 1951.
[7]—6 months ended Mar. 31, 1950.
[8]—9 months to Sept. 30, 1950; fiscal year changed.
[9]—36 weeks ended Mar. 10, 1951.
[10]—36 weeks ended Mar. 4, 1950.
[11]—Year ended Mar. 31, 1951.
[12]—Year ended Nov. 30, 1950.
[13]—Year ended May 31, 1950.
[14]—16 weeks ended April 21, 1950.
[15]—16 weeks ended April 22, 1950.
[16]—9 months ended Febr. 28, 1951.
[17]—1951 rate.
[18]—Plus stock.
[19]—5% in stock.
[20]—Year ended May 3, 1950.
[21]—12 months ended April 30, 1951.

tions have been applied to the food budget with a resultant spurt in consumption of fluid milk, ice cream and cheese. Prospect of continuance of a better than average improvement in purchasing power among the "lower one-third" of the economy is a strong argument in behalf of food processors, especially in the dairy group.

Packaged Foods

Inflationary forces tend to impose restraints on earnings of packaged foods processors in lines which have fixed price patterns. This problem is becoming less important now, however, because the public has become accustomed to fluctuating retail prices and manufacturers gradually are breaking away from emphasis on firmly established quotations on packaged goods. Only in the soft drinks and confectionary divisions is the traditional 5-cent price tag hampering margins to any considerable extent. Of greater importance is the strong uptrend in consumption which encourages enlarged sales and moderate economies in distribution. Abundance of supplies for almost all important foods also is favorable.

In the packaged field the pronounced growth in demand for frozen foods has contributed to phenomenal sales expansion, but earnings results have been less satisfactory. Some companies have encountered serious problems in this respect—notably in frozen juices. Public acceptance far exceeds expectations with the result that processors scrambled for adequate supplies of oranges and forced up higher raw materials costs. Public demand abruptly fell away when canners *(Please turn to page 477)*

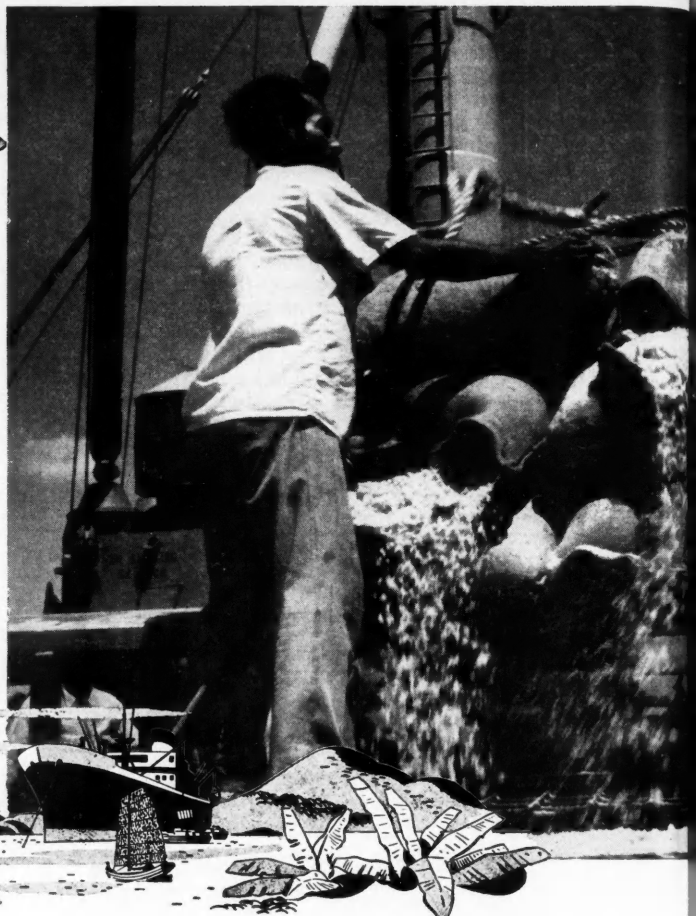
Pertinent Statistics on Leading Food Processors

	—Net Sales— Full Year 1950 —(Millions)—	Operating Margin 1950	—Net Per Share— 1st Quar. 1951	1st Quar. 1950	Full Year 1950	1950 Div.	Recent Price	Div. Yield	Invest-ment Rating	COMMENTS
Hunt Foods	59.5[12]	15.6	—	—	9.45[12]	[19]	19	—	—	Sales spurt resulting from scare buying unlikely to be repeated this year and this company's volume may suffer and lower earnings may result. Dividend uncertain.
Libby, McNeill & Libby	196.3[2]	5.5	—	—	1.61[2]	.80[17]	8⅝	9.3	C	Competition expected to be keener this year and earnings may recede, but further growth in frozen foods indicated.
National Biscuit W	286.4	13.2	$ .57	$ .72	3.08	2.30	32¼	7.1	A	Dividend policy likely to be conservative. Decline in basic raw materials prices would improve margins, but operating costs continue to hamper earnings. Continuance of $2 dividend a reasonable hope.
National Dairy Products W	906.4	7.1	—	—	5.14	2.80	46¾	6.0	A	Slightly lower earnings are projected for this year despite indications of increased sales. Heavier tax burdens felt. More liberal dividend is possible.
Penick & Ford	43.3	12.0	.88	.74	3.89	3.10	37½	8.2	B[1]	Increased taxes and narrower profit margins suggest lower earnings this year despite further gain in sales. Dividend may be slightly lower for full year.
Pet Milk	137.5	5.5	.80	.08	7.04	1.60	50	3.2	A[1]	Outlook for sales growth and continued satisfactory margins suggests that net profit may not be seriously reduced by higher taxes. More liberal dividend seen.
Pillsbury Mills	200.9[13]	1.4	—	—	2.16[13]	2.00	33½	5.9	B	Promising trend of animal feed sales and expansion program point to another rise in earnings from low 1950 results. Dividend may be kept at conservative $2 rate.
Purity Bakeries	75.3	6.17	1.10[14]	1.24[15]	3.58	2.40	28¼	8.5	C	High level of consumer buying power should boost sales and help offset rising costs. Earnings may hold close to 1950 level and dividends should be the same.
Standard Brands	301.4	5.7	.60	.61	2.96	1.70	22⅛	7.6	C+	Good diversification should permit resistance to declining sales, but margins may recede. Earnings indicated slightly under 1950 level, but $1.70 dividend may hold.
Stokely-Can Camp	95.5	5.1	—	—	1.63	1.00	14¾	6.8	B	Although favorable results of year just ended seem unlikely to be repeated, earnings should exceed 1950 figure and afford ample coverage for indicated $1 annual dividend.
Sunshine Biscuits W	101.0	12.6	1.58	1.61	7.24	4.00	63¼	6.3	B	Reflecting high consumer income, sales seem likely to show impressive gain, but earnings scarcely can do more than approximate 1950. Dividend may be same as year ago.
United Biscuit W	92.4	9.6	1.09	1.08	4.92	1.80	32	5.6	A	Prospect of strong consumer demand and greater stability in raw materials should help sustain earning power. Hope of extra dividend appears warranted.
Ward Baking	85.3	6.9	.42	.38	3.69	2.00	17⅞	11.2	C	Wage increase points to rising delivery costs and narrower margins unless prices can be raised. Lower earnings for 1951 seen, but regular $1 dividend seems secure.

d—Deficit.
1—1st fiscal quarter ended May 31, 1951.
2—Year ended Febr. 28, 1951.
3—9 months ended Mar. 31, 1951.
4—9 months ended Mar. 31, 1950.
5—Year ended June 30, 1950.
6—6 months ended Mar. 31, 1951.
7—6 months ended Mar. 31, 1950.
8—9 months to Sept. 30, 1950; fiscal year changed.
9—36 weeks ended Mar. 10, 1951.
10—36 weeks ended Mar. 4, 1950.
11—Year ended Mar. 31, 1951.
12—Year ended Nov. 30, 1950.
13—Year ended May 31, 1950.
14—16 weeks ended April 21, 1950.
15—16 weeks ended April 22, 1950.
16—9 months ended Febr. 28, 1951.
17—1951 rate.
18—Plus stock.
19—5% in stock.
20—Year ended May 3, 1950.
21—12 months ended April 30, 1951.

Are the SUGARS Vulnerable to Peace?

By FRANK R. WALTERS



Despite the fact that many of them have paid good dividends (including extras) for some years, the sugar stocks, with the exception of a few U.S. refiners and beet sugars, are still regarded as highly speculative and unworthy of inclusion in investment portfolios. This viewpoint seems to be a heritage of the 1920's and 1930's, when many sugar producers had top-heavy capital structures or large bank loans, which made them vulnerable to any decline in the price of the commodity. To a considerable extent these companies have reduced their capital structures to a sounder basis, and very few of the latter are now inflated. Moreover, some of these companies have built up good cash backlogs which insure some reserve for dividend payments. However, inventories have also been growing in recent years, and in looking at cash it is also important to study the ratio of both current assets and cash to liabilities.

Because institutional investors look askance at the sugars, the individual investor may reap rewards in the way of high yields and occasional price appreciation if he diversifies his sugar holdings, and reads the sugar news in his daily paper with careful attention. He must, of course, realize that there are several groups of sugar stocks (see table) and that frequently they are subject to differing influences.

Price Fluctuations

Sugar is a typical "war industry". About one-third of world production is in continental Europe, where world wars are apt to disrupt the production of beet sugar. War also interferes with ocean transport and hence with the distribution of sugar supplies from far-flung production areas to consuming markets. Fortunes were made by Cuban sugar planters in World War I, only to be wiped out in the commodity decline of 1919 and 1920. In World War II, world sugar prices advanced from an average of 1.1 cents in 1940 to 3.1 cents in 1945; and this time instead of reacting sharply, they continued to advance to 5.0 cents in 1947, and 7.0 cents recently. After the outbreak of the Korean war a year ago, the usual "scare" buying developed in sugar, and a substantial amount moved from producers' hands into inventories—wholesale, retail, and kitchen shelf. Early this year it was felt that supplies were quite adequate and that production was still somewhat excessive. Even some of the experts were lukewarm as to near-term prospects for price recovery. To the general surprise of the industry, perhaps, both U.S. and World prices have recently advanced smartly during a period when other commodities were registering sharp declines.

While it seems uncertain whether the move in raw sugars will carry much further in view of Korean "cease-fire" negotiations, in any event the rise has permitted the sugar companies (particularly those outside the U.S.) to improve their profit margins, earnings, and dividends, except where price gains may be cancelled out by poor growing conditions, as with some Cuban companies. Beet sugar producers in this country are also less fortunate, being handicapped by high costs and taxes; and refiners' profits are checked by heavy Federal taxes.

World production this year is estimated at 40.4 million short tons, nearly (*Please turn to page* 475)

Statistical Summary of Sugar Companies

	Fiscal Years ended	Net Sales 1950* (Millions)	Net Sales 1949* (Millions)	Net Per Share 1950	Net Per Share 1949	1950 Div.	Div. Yield	Recent Price	Price Range 1950-1951	Investment Rating	COMMENTS
Cuban, Dominican Producers											
Central Violeta Sugar	9/30	$ 9.6	$ 9.6	$ 4.10	$ 3.63	$ 2.00	9.2%	21¾	24⅝-12⅞	C	Dividend of at least $2 probable after end of fiscal year September 30. Consolidated earnings estimated at only $2.50 vs. $4.10 last year, due to drought, etc.
Cuban Amer. Sugar	9/30	70.3	68.1	4.49	3.02	2.50	11.8	21¼	24¾-15¼	C+1	Earnings may hold around last year's $4.49 (which included a non-recurring loss) despite poor growing conditions early in the season. An extra dividend of $1 or more in the fall appears likely.
Cuban Atlantic Sugar	9/30	92.4	76.5	6.63	3.54	3.00	8.7	34⅜	37½-18¾	C+1	Earnings expected to compare favorably with $6.63 fiscal year 1949-1950. Regular annual dividend rate being increased from $2.50 to $3 (on present stock).
Francisco Sugar	6/30	15.1	12.1	4.53	1.43	2.50	11.3	22	24⅝- 9⅛	C+1	Earnings for fiscal year ended June 30 perhaps exceeded last year's $4.53. Annual $2.50 dividend may be paid in September, though past payments irregular and cash position not large.
Guantanamo Sugar	9/30	7.2	6.2	2.45	1.40	1.00	9.7	10⅜	12⅛- 6¼	C+1	Due to light rainfall last fall crop may have been reduced, but profit margins should be better. A $1.50 dividend was recently paid vs. $1.00 a year ago.
Manati Sugar	6/30	12.8	13.3	1.44	1.93	.80	6.1	13	14⅜- 7⅛	C	Profit margins probably well maintained in fiscal year ended June 30. Some improvement in 80 cents dividend possible unless Company desires to build up depleted cash. Past record erratic.
Vertientes-Camaguey	9/30	23.7	22.5	2.91	2.08	2.00	11.3	17⅝	20¼-12⅞	C	A $1 dividend was declared payable November 1st, maintaining $2 annual rate. Current yield about 11%. Company had no funded debt, but cash position last September was not very favorable, due to high inventories.
West Indies Sugar	9/30	42.0	36.9	6.71	3.59	3.00	7.8	38	39⅞-19	C+1	Earnings for year ended September 30 may show some improvement over last year's $6.71. Cash position excellent. Extra recently paid, and another likely before year-end.
Puerto Rican Producers											
Central Aguirre Sugar	7/31	16.0	14.0	2.84	1.84	1.50	7.3	20⅜	20⅞-15	C+1	Company should benefit by higher world prices. Unusually long dividend record, since 1915. 40 cents regular and 10 cents extra paid quarterly (less 20% Puerto Rican tax).
Fajado Sugar	7/31	12.8	14.1	2.78	2.76	3.00	13.3	22½	26⅛-22	C	Record irregular, but earnings may exceed last year's $2.78 in fiscal year ended July 31. Dividend payments generous (including proceeds from property sales in 1949). Cash position fair.
South Porto Rico Sugar	9/30	31.1	32.8	7.12	7.02	8.00	12.8	62½	65⅝-36½	B	Very strong financial position with working capital of $18 per share September 30, 1950. Earnings should continue at good levels. $2 dividend paid July 2 and substantial September extra possible.
Beet Sugar Producers											
Amer. Crystal Sugar	3/31	38.1[1]	28.4[2]	4.52[1]	3.23[2]	1.50	7.0	21¼	28¾-17½	C+1	Profit margins may be narrowed by higher operating costs and taxes. Conservative amount $1.20 dividend rate supplemented by extra in April, and eventual increase in regular rate possible. Cash improved by recent sale of land for $6 million.
Great Western Sugar	2/28	70.1[3]	46.3[4]	2.39[3]	1.66[4]	1.35	7.2	18¾	22⅜-18⅛	C+1	Earnings in Feb. fiscal year showed large gain; $1.20 annual dividend rate supplemented by 40c extra in April. 1951-2 fiscal year may be less favorable due to smaller plantings, inadequate labor, and taxes.
Holly Sugar	3/31	40.4	44.0	3.00	2.66	1.00	5.3	18¾	22¼-16¼	C	Dividend rate held at $1 since 1941 despite upward trend in earnings. Low payout and expectation that subsidiary's oil drilling may prove successful, account for relatively low yield.
Refiners											
American Sugar Ref.	12/31	287.2	277.1	15.31	10.75	10.00	15.6	64	73¾-38½	B+1	1947-50 earnings relatively high and dividends last year totalled $10. Heavier tax rates and other factors may retard earnings, but quarterly payments of $1 regular and 50c extra expected to continue.
National Sugar Ref.	12/31	149.1	132.2	4.51	4.40	2.50	9.4	26¾	32¼-26	C+1	While earnings may be somewhat lower this year due principally to heavier taxes, regular $2 dividend rate should be maintained; payment of 50 cent year-end extra seems less assured.

*—1949-1950, 1948-1949 fiscal years respectfully.
1—March 31, 1951.
2—March 31, 1950.
3—Feb. 28, 1951.
4—Feb. 28, 1950.

★ ★ ★

What About the . . . . .
TOBACCOS?

By **PHILLIP DOBBS**

Trends long established in the tobacco industry in the United States based on current figures from government sources, are continuing, and show very little prospect of changing for a long time to come. Several features are noteworthy as reflecting conditions in the period June 30, 1950–June 30, 1951. First is the new record of approximately 410 billion cigarettes compared with 383 billion 1949-1950 and 390 billion 1948-1949. The second interesting feature is the change in the cigar industry which was favored by a reversal in the former gloomy trend of falling sales experienced in recent years. This is indicated by the fact that for the first eleven months of the fiscal year ended June 30, cigar production amounted to approximately 5,237,000,000 units, a gain of 235 million compared with the previous period.

Illustrating the major trends in the industry, it is noteworthy that according to Dept. of Agriculture figures, consumption patterns for the past twenty five years indicate that part of the increase of over 270% in consumption of cigarettes from 1925 to 1951 was due to switching from cigar and pipe smoking, tobacco chewing and the use of snuff, combined. The other part of the increase, of course, is due to increased population and its demands, and to the higher national income and purchasing power of individuals.

Based on past experience, it may be taken as axiomatic that successive increases in the price of cigarettes, whether caused by increased manufacturers' prices and Federal taxes, or both, will not in themselves deter the steady increase in cigarette consumption, as long as the national income remains high or increases.

Despite this favorable economic background, competition among the leading producers, which has always been a markd feature, continues even more strenuous. This year, most manufacturers will spend from 10% to 20% more on advertising, with the bulk of the increase in TV. While the total output of cigarettes is enormous, the rate of gain in recent years has not been large, and this forces manufacturers to fight for public support in order to maintain their positions.

Tobacco Costs Up

The cigar industry remains in a less satisfactory position fundamentally, despite the recent moderate increase in consumption. Groups of manufacturers in this field are making uparalleled efforts, through new form and techniques of advertising, to spur sales. It is expected also that the increase in armaments production will increase sales among factory workers.

Prices for the 1951 crop of flue-cured tobacco will be supported at an average loan rate of 50.7 cents a pound, contrasting with 45 cents last year. This new support price at 90% of parity should suffice to give farmers a fair return in relation to costs. The actual price of flue-cured tobacco is 56.3 cents compared with 50 cents a year ago.

During the first half of 1951, tobacco costs were about 6% higher than last year and other costs were up to some extent also. This will be partially offset by increasing operating efficiency and especially the 6% increase in prices put into effect last year. Supplies of leaf are ample and the prospective increase in the tobacco crop used in cigarette manufacturing will probably be greater, thus lessening any pressure for higher prices.

On the basis of existing prices and demand for manufacturers' products, the tobacco industry this year should produce earnings results comparable with the generally excellent returns of 1950, though fiscal net may be moderately affected by the prospective increase in taxes. However, most companies have a favorable base of exemptions as to excess profits taxes. Dividends for the more important cigarette and snuff companies seem quite secure, but those for the cigar industry are uncertain.

American Tobacco Company

In common with the shares of most of the other tobacco companies, American Tobacco has hovered in a comparatively narrow price range for 1951, the prices being 68⅞-59. In common with the market as a whole, the shares have tended down in recent months and to that extent the fact that they are selling at an appreciable discount from the highs of last year should not be overly stressed. Partly owing to higher average selling prices, total volume of sales have shown a small increase and it is inticipated that total sales for 1951 will exceed 1950 by about 3%. The company is fortunate in that two of its products, Pall Mall and Herbert Tareyton, are selling at a rate faster than that of the industry generally, while its chief product, Lucky Strikes, is holding its own. American Tobacco, like the other tobaccos, will be affected by the general rise in corporation taxes and may be compelled to meet the added burden of an increase in excise taxes. However, the base for EPT is around $5.30 a share, and with earnings for this year expected at $6.00 to $6.50, there is ample coverage for the $4 dividend rate. The stock is now selling on a good investment basis and may be held for income, with a yield of about 6.6%.

Reynolds Tobacco Company

As with the other companies in this field, the essential factor governing earnings for 1951 will not be in its control for that will rest with the government's decision as to the expected rate of tax increase. The net exemption for this company is around $2.70 a share but this is rather comfortably far off from the average rate of earnings in the past two years of $3.75 a (*Please turn to page* 471)

Position of Leading Tobacco Companies

	Net Sales 1st Quarter 1951 (Millions)	Net Sales Full Year 1950 (Millions)	Operating Margin 1950	Net Per Share 1st Quarter 1951	Net Per Share 1st Quarter 1950	Net Per Share Full Year 1950	1950 Div.	Recent Price	Div. Yield†	Investment Rating	COMMENTS
American Snuff W	$ 4.0	$ 13.7	20.4	$ .82	$ .87	$3.18	$3.00	39	7.6%	B	Trade position secure, but margin of earnings over dividends somewhat reduced in recent years. Strong financial position, however, should warrant continued payment, with extras.
American Tobacco W	209.4	871.6	9.9	1.29	1.24	7.17	4.00	60½	6.6	A	Net sales continue to show moderate decline and earnings for current year may be somewhat off from last year. Sales of new king-pin sized cigarettes being pressed. Dividend rate secure.
Bayuk Cigars	6.8	30.2	4.8	.16	.01	.94	.80	10	8.0	C+	Competitive conditions in industry acute though overall sales show improvement. Earning power not stabilized and dividend rate cannot be considered impregnable.
Consolidated Cigar	11.4	50.2	9.3	.87	1.23	7.26	2.00[3]	26½	7.5	C+	Largest and most successful of companies in field. Earnings in current down-trend but margin wide enough to continue payment of 50-cent quarterly dividend.
General Cigar	6.6	29.0	4.8	.43	.007	1.15	1.00	15¾	6.4	C+	Faced with increasing competition and price-cutting. Earnings position not stable though first-quarter results show improvement. Present rate of dividend not considered entirely secure.
Helme, G. W. W	2.9	9.9	23.3	.54	.64	1.99	2.00	23½	8.5	A	Long-time established snuff producer. Earnings characteristically stable and have provided payments of dividends for many years. Entrenched financial position a feature.
Liggett & Myers	128.7	530.5	10.5	1.43	1.40	7.06	5.00	68	7.3	A	Sales of Chesterfield, main producer, holding, but increase in advertising expenses necessary. Together with other leading manufacturers, has increased earnings in first quarter. Current dividend rate extremely well entrenched.
Lorillard	41.4	167.9	7.9	.50	.59	2.69	1.85	21⅜	8.6	B	Increased demand for Old Gold, but additional disbursements for advertising necessary to hold sales position. Only one of big companies to show decline in profits for first quarter. Dividend not as well secured as leaders but seems established at present rate.
Philip Morris W	77.8[1]	305.8[2]	12.2[2]	1.32[1]	1.46[4]	6.62[2]	3.50	47¼	7.3	B	Management exceptionally astute and has produced highly successful advertising campaign in recent years. Earnings outlook favorable and dividend recently increased. Year-end extra anticipated.
Reynolds Tobacco "B"	182.6	759.8	10.7	.78	.74	3.73	2.00	32½	6.1	A	Leader in field of sales with Camels. Earnings should approximate those of 1950. Wide margin of earnings above dividends with good return for stock in investment class.
U. S. Tobacco W	6.6	23.3	20.7	.36	.36	1.49	1.35	18¾	7.2	B	One of the oldest snuff manufacturers, also smoking tobaccos. Unbroken record of dividend payments for forty years. Strong financial position supports dividend payments.

†—Based on 1950 dividends.
[1]—1st fiscal quarter ended June 30, 1951.
[2]—Year ended March 31, 1951.
[3]—Plus stock.
[4]—1st fiscal quarter ending June 30, 1950.
W—Recommended for income.

FOR PROFIT AND INCOME

August

Looking at the August record since the start of World War I, the Dow-Jones industrial average had a net gain of some importance in this month in 10 years, substantial declines in 8 years, and was unimportantly changed in 18 years. This does not foot up to any "seasonal tendency." The biggest August gain was in 1932, with a rise of nearly 35% from an extremely low base. The month has brought nothing nearly that spectacular on the down side. However, August saw the start of the dynamic phases of the 1937-1938 bear market and of the 1946 break of about 49 points in the average.

Summer Rally

Whatever happens from here on, market historians will record that the "traditional summer rise" occurred in 1951. Some take the May closing level as the reference point, others the June low. From both, but especially the latter, there has been a substantial rally in July, up to this writing. As concerns maintenance of the seasonal tendency, it is now immaterial whether the August high betters that of July. In about two years out of three there has been a rise of 10% or more by the industrial average, from the June low, within the July-August period. In the present instance, the move from the June low up to this writing would have to be about doubled to equal 10%. As that would take the average to a new 1951 high, the chances of a 10% rebound are slight. Perhaps it is worth repeating, as this column has emphasized before, that it does not pay to try to "play the market" to profit out of seasonal "habits." Taking this thought a step further, it does not pay to try to "play the market" at any season. On the other hand, investing or speculating in individual stocks, chosen through careful analysis of pros and cons, is not "playing the market."

Selectivity

This is a bear market for holders of some stocks, a bull market for holders of others. In short, it is so selective a market that one could easily put undue stress on what the "averages" are doing. In general, speculative stocks are faring poorly, making new lows in each zag of the market zig-zag. There is generally good demand for growth stocks; high-grade stable-dividend stocks; and the minority of "special situations" favored by earnings prospects, prospective stock splits, dividend boosts, or otherwise by significant company developments. The performance of stocks emphasizes the individual approach, and less preoccupation with "the general trend" than in some time. A major reason therefor at present is the shrunken role of speculators and the increased influence of institutional investment funds of all types. The holder of stocks which meet the prudent-man rule for institutional purposes is bound to fare at least better than average.

Stocks

A partial list of stocks which have been acting much better than the general list—persistently so in most cases—includes: Addressograph-Multigraph, American Cyanamid, Allied Chemical, Amerada, American Gas & Elec-

INCREASES SHOWN IN RECENT EARNINGS REPORTS

		1951	1950
Brown-Forman Distillers	Year April 30	$7.07	$4.64
National Pressure Cooker	March 31 Quar.	.49	.34
International Shoe Co.	6 mos. May 31	1.37	1.34
Oklahoma Natural Gas	12 mos. May 31	3.26	3.04
Western Union Telegraph	5 mos. May 31	2.81	1.74
Pittsburgh & West Va. Ry.	5 mos. May 31	1.18	1.14
Southern Pacific Trans. Sys.	5 mos. May 31	4.20	3.38
American Gas & Elec.	12 mos. May 31	5.01	4.48
Firestone Tire & Rubber	6 mos. April 30	11.69	6.68
U. S. Plywood Corp.	Year April 30	5.99	3.07

tric, American Home Products, American Natural Gas, American Smelting, American Viscose, Anchor Hocking Glass, Dow Chemical, Cleveland Electric, Columbia Gas, Commercial Credit, Commonwealth Edison, Consolidated Natural Gas, Corning Glass, Firestone Tire, First National Stores, Goodrich, Goodyear, Marathon Corp., Mathieson Chemical, Minneapolis - Honeywell, Monsanto Chemical, National Distillers, National Lead, Ohio Oil, Phillips Petroleum, Rayonier, Sterling Drug, Sutherland Paper and Union Carbide. These issues average pretty high in quality. Some have recently made new 1951 highs; and all others are close to previous highs, at this writing. Some have been commented on favorably heretofore by this column. However, citation in this item, on the basis of market action, is not to be construed as a blanket recommendation. No doubt some of these issues are sound values on a longer-term prospective; while in others the prices has gone very far, if not too far, in allowing for all favorable considerations.

Rubbers

It is perhaps an understatement to say that tire makers have profited handsomely in the postwar era to date. Judged by prewar standards, their earnings are "out of this world." This group of stocks has yet to top the excessive level reached in the mid-1920's and might never do so; but is historically high, from any modern perspective. It has been given another push recently by publication of excellent interim earnings reports by Firestone Tire and General Tire. The basic position of the industry is considerably better than it used to be – but it has not been converted either into a true growth-industry or a stable-profit industry. It remains sharply subject to cyclical variations in demand. Present earnings are much above "normalcy," and are probably subject to a material shrinkage even on a perspective of 6 to 12 months. This column would rather salt away some profits in tire stocks than add to holdings.

Splits

Stocks splits are always most numerous in a strongly rising market, and a high market level. Usually, several months pass between "recommendation" of a split by the board of directors and its effective date, following approval of stockholders. Actually, the recommendation is equivalent to final decision, for if a meeting of stockholders has ever turned thumbs down on a "proposed" split, this column is unaware of it. Most splits approved in the first half of 1951 were "recommended" when a bull market still appeared in progress. There were roughly ninety of them, more than half again as many as in the first half of 1950. The chief purpose of splits is to broaden stock ownership: that is, enlarge the total number of stockholders. Why? Well, it makes equity financing somewhat easier, and managements generally prefer it that way even when no such financing is actively contemplated; and it makes it easier for insiders to dispose of stock in estate planning or for other reasons. So, regardless of their immediate plans and objectives, insiders have every reason to like splits. Stocks sometimes are in selling zones after splits, sometimes not. There is no rule of thumb. Due to the change in market climate, there will no doubt be fewer splits in the second half than in the first. Which stocks may be split? No doubt there are a fair number of possibilities. Allowing for the complications of vacation plans and the enervating effects of mid-summer weather, the writer hopes it will suffice for the present to say that two possibilities–not certainties –are Dow Chemical and Monsanto Chemical.

Incidentally

What stock will gain most from the present level over the next five or ten years? It will probably be the presently obscure, perhaps unlisted, stock of some relatively small company. Your chances, or ours, of picking it are about as good as are those of drawing a winner in the Irish Sweepstakes. However, successful investment rarely hinges on any long-shot choice. It is more generally founded on a patient, not too-imaginative, middle-road policy. Let's rephrase the question. Which presently popular and prominent stock is likely to appreciate importantly further over the next five to ten years? This column's choice would have to be Dow Chemical, for its growth prospects and potentials appear to be relatively more dynamic than those of any other major company in the dynamic chemical industry. This opinion is quite incidental to the possibility, cited in the preceding paragraph, of a stock split.

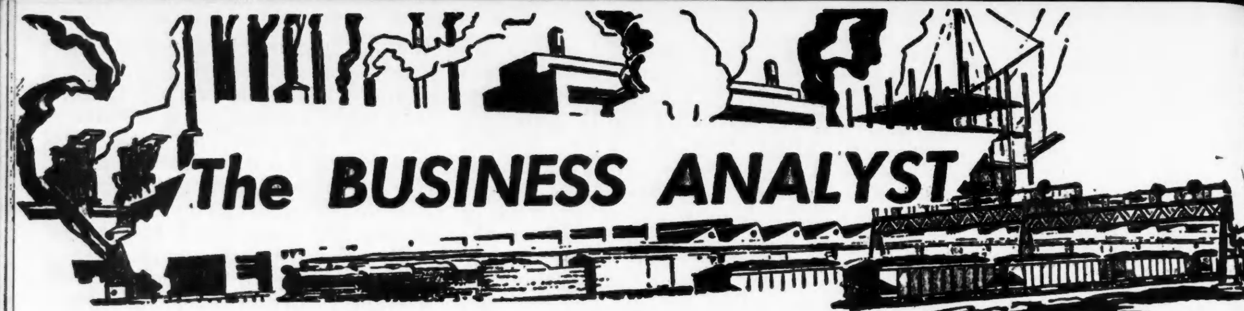
Value

Asa a group, electric utility stocks made their bull-market high in May, 1950, "before Korea." They have been more or less inhibited ever since by war-economy tax fears. An exception is American Gas & Electric, which, despite the "gas" in its name is almost entirely an electric utility; and one of the strongest and best-managed, most progressive and fastest-growing major companies in the field. This stock reached a new postwar – and post 1929 – high of 56½earlier this year; and is within a quarter-point of it as this is written. Despite higher taxes, the company's net income is bound to set a new all-time peak this year. Despite the increased share capitalization resulting from equity expansion-financing, the management forecasts share earnings at least equalling, if not slightly exceeding, 1950's record $4.86 a share–and this management is not given

(*Please turn to page* 475)

DECREASES SHOWN IN RECENT EARNINGS REPORTS

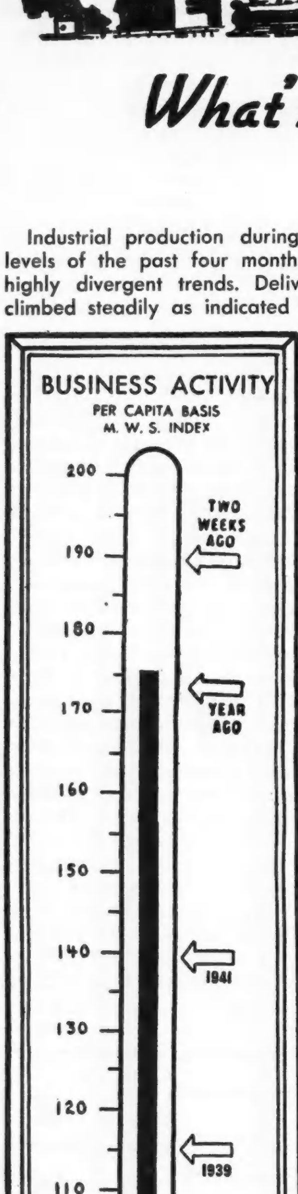
		1951	1950
National Tea Co.	24 weeks June 16	$1.18	$1.38
Kroger Co.	24 weeks June 16	1.50	1.54
Grand Union Co.	June 2 Quar.	.66	.84
Colt's Mfg. Co.	20 weeks May 20	3.63	4.81
Great Atlantic & Pac. Tea Co.	Year Feb. 28	14.90	15.14
Montana Power Co.	12 mos. May 31	2.60	2.79
Sterchi Bros. Stores	May 31 Quar.	.46	.70
Kansas City Southern Ry.	5 mos. May 31	4.12	4.44
Republic Pictures Corp.	26 weeks April 28	.12	.28
Telautograph Corp.	6 months June 30	.35	.37



What's Ahead for Business?

By E. K. A.

Industrial production during June continued at the high levels of the past four months, but this statistic concealed highly divergent trends. Deliveries of defense items have climbed steadily as indicated by a rise of some six billion dollars, since March, in the annual rate of government spending, while output of civilian goods has dropped appreciably, especially in the durable field. Thus by May, the Federal Reserve index of auto production was down to 250 from the year's high of 262, furniture output at 175 compared with the March peak of 196 and textile production at 187 was moderately below the 194 level reached in February. Nor are June figures expected to show any improvement. Prime reason for the decline has been the drop in retail sales down 10% since January although signs of stabilization are now appearing.



The reaction in the civilian portion of the economy is the second since the start of the Korean incident and thus far closely parallels the three month decline that set in last year as an aftermath to the July-August buying spree of 1950. A renewed rush of customers to market began in December, in the wake of Chinese intervention in the conflict. Of prime importance in spurring demand was the sharp and virtually unbroken price rise last year which made goods look much more desirable than money. Any nearby repetition of the buying panic is not looked for at present in view of bulging inventories on hand, while a downward price trend, now in its fifth month, restrains even normal spending. It is true that personal incomes have continued to rise, albeit at a slower rate, but individuals have stepped up their savings in a desire to return to more normal spending-savings ratios and in many cases are trying to whittle down top-heavy debts.

In the industrial sector where defense preparation has its most immediate effect in the shape of orders, the armament build-up continues and we are well along in the first stage which has been concerned with the placing of contracts and the readying of plant and equipment. From here on we can expect ever increasing quantities of defense goods to roll off assembly lines. The normal impact of such production would be to accentuate shortages of material but this may not occur for some time because of the determined accumulation of inventory which has been going on for a year. By May of 1951, inventories in retailing, wholesaling and manufacturing approached $70 billion, a gain of 30% since June 1950, while sales have risen by only 14% during the same period. Businessmen therefore have plenty of fat to work off before any pinch is felt and are in a mood to re-assess the outlook.

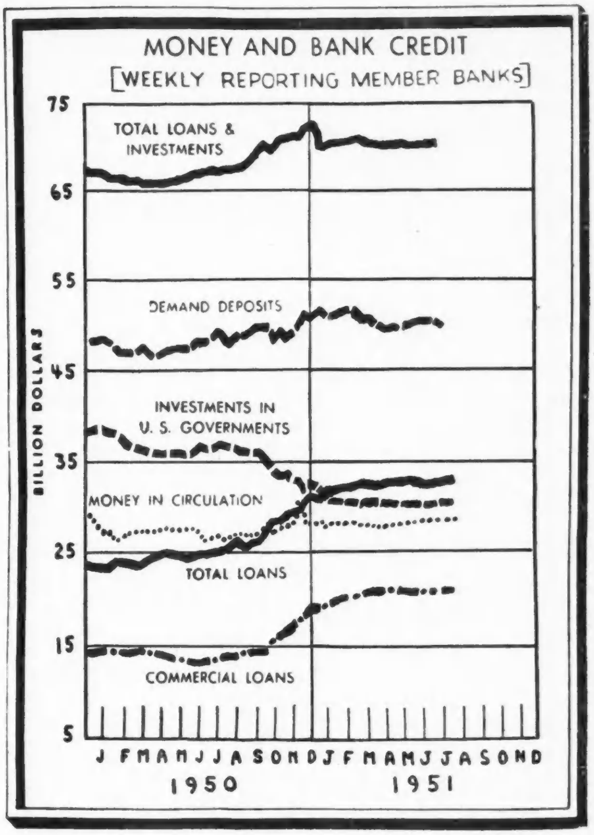
During the past year it was taken for granted that an immense and continuing armament expansion, in line with Administration plans, was inevitable. Actual spending for defense has not risen as rapidly as had been expected but was proceeding at a $2.5 billion pace in June with a $4 billion a month outlay projected for December and continued increases proposed for 1952. However, the beginning of Korean peace talks has brought a more aggressive opposition to the scope of the government's expansion plans and Congress has shown its independence both by refusing to implement the President's demands for stronger controls and by its reluctance to go along with tax increases in the amount requested by government spokesmen. It is now generally realized that peace may bring with it a more circumspect approach to defense expenditures. In addition we may expect that Administration planners would then review their programs with an eye to giving more consideration to consumer needs and a willingness to moderate the pace of the expansion to some degree if necessary. This would be done in order to avoid shortages that can breed resentment and consequent loss of public support for the over-all policy.

Barring further war-like outbreaks—and the Korean debacle may have taught the Communists that aggression will be opposed on all fronts—it therefore appears likely that our economy will be required to adjust itself to a steady but less spectacular armament expansion than had hitherto been expected. In our struggle, we must realize that the foe is ready to exercise infinite patience, waiting for an auspicious moment to strike. Our plan must therefore be a long-term one, avoiding the economic turmoil—characterized by a scramble for goods, and a growing black market—that a too rapid conversion would bring.

The Business Analyst

HIGHLIGHTS

MONEY AND CREDIT—With $5.5 billion of thirteen month 1¼% notes maturing August 1, the Treasury is offering in exchange an issue of eleven month 1⅞% certificates of indebtedness. The exchange offer resembles the one made on June 15 to meet $10 billion of notes falling due at that time but is not as generous as the earlier offer because the new issue, while bearing the same interest rate, is a month and one-half longer in term. The earlier issue is now selling at 100⅛ bid to yield 1.7% and when-issued trading has started in the new notes which are at a 1/16 point premium to yield 1.81%. Financial circles were interested in the announcement that the Federal Reserve System had exchanged $1,000,000,000 of its holdings of non-marketable 2¾% bonds which were issued this spring into the marketable 1¼% notes. This reduces the Federal's holdings of bonds maturing in over ten years to some $3,000,000,000 and increases its portfolio of debt maturing in one to five years to over $4,800,000,000. The exchange should have some bullish connotations for the Treasury's long term bonds and will give the Federal Reserve more leeway in buying such maturities if offerings are again pressed on the market. Government bond prices have improved somewhat with the non-bank 2½'s of December 1972-67 at a bid price of 97⅛ compared to the year's low of 96¾. The Treasury is continuing its policy of offering 91-day bills in excess of amounts falling due. The latest issue of $1.2 billion dated July 19 exceeds the $1 billion of maturing bills and brings to $600 million the extra cash raised in this fashion. The nation's money supply as represented by total deposits plus currency outside the banks rose by $400 million in May to total $173.7 billion at the end of the month. This compared with the year's peak of $174.2 billion reached on February 28. Demand deposits at $89.5 billion on May 30 were unchanged from a month earlier and down $1.1 billion from the February peak. On June 30, 1950 when the latest wave of monetary expansion began, demand deposits stood at $85.4 billion and the total money supply was $169.7 billion. Total loans by reporting member banks of $32.77 billion on July 3 were down slightly from the levels a week before. These loans have hovered around present totals for some months but are still $7 billion higher than they were a year ago.



TRADE—Department store sales for the week ending July 7 were 1% above a year ago. At that time, scare buying had already begun but last year's independence-day holiday fell on a Tuesday and some retailers were also closed the day before making a two-day holiday which kept sales down. From here on sales will have a hard time keeping pace with last year's leaping figures.

INDUSTRY—With extensive holiday shut-downs only partially allowed for in index adjustments, the MWS Index of Business Activity dropped to 175.2 in the week ending July 7 compared to 190.7 for the preceding week. Every component of the index, except refinery runs of crude oil and steel production, was lower, but a sharp rebound from these artificially depressed levels will occur automatically as industry returns to full-time operations.

COMMODITIES—The MWS Weekly Index of spot commodities turned up slightly in the week ended July 13 for the first time since April 28, and stood at 180.8 compared to the previous week's 180.7. Improvement was shown by the wheat, corn, sugar and wooltops constituents of the index, while spot cotton dropped 7% in the past week after holding at ceiling levels for many months.

Manufacturers **SHIPMENTS OF PASSENGER TIRES** during May increased 9.6% to 5,337,985 casings from April's 4,871,589 casings, according to the monthly report of the Rubber Manufacturers Association. The May figures made a poor comparison with the 7,276,860 casings shipped in the same month a year ago. With tire production exceeding shipments, the inventory of tires at the end of May rose to 2,506,908 casings, still only a small fraction of yast year's stocks of 10,364,646 tires.

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Essential Statistics

	Date	Latest Wk. or Month	Previous Wk. or Month	Year Ago	Pre-Pearl Harbor*
MILITARY EXPENDITURES—$b (e)	June	2.7	2.43	1.2	1.55
Cumulative from mid-1940	June	419.1	416.4	396.4	13.8
FEDERAL GROSS DEBT—$b	July 12	254.9	254.8	257.2	55.2
MONEY SUPPLY—$b					
Demand Deposits—94 Centers	July 3	49.2	49.9	47.4	26.1
Currency in Circulation	July 7	27.9	27.9	27.2	10.7
BANK DEBITS					
New York City—$b	July 3	11.0	11.3	9.2	4.26
93 Other Centers—$b	July 3	14.3	15.6	13.1	7.60
PERSONAL INCOMES—$b (cd2)	Apr.	244	243	214	102
Salaries and Wages	Apr.	162	161	135	66
Proprietors' Incomes	Apr.	48	47	40	23
Interest and Dividends	Apr.	20	20	18	10
Transfer Payments	Apr.	12	12	17	3
(INCOME FROM AGRICULTURE)	Apr.	20	19	15	10
POPULATION—m (e) (cb)	May	153.9	153.7	151.3	133.8
Non-Institutional, Age 14 & Over	June	108.8	108.8	109.4	101.8
Civilian Labor Force	June	63.8	62.8	64.9	55.6
unemployed	June	2.0	1.6	3.4	3.8
Employed	June	61.8	61.2	61.5	51.8
In Agriculture	June	8.0	7.4	9.0	8.0
Non-Farm	June	53.8	53.8	52.4	43.8
At Work	June	59.2	59.4	59.1	43.2
Weekly Hours, non-farm	June	41.7	41.9	41.8	42.0
Man-Hours Weekly—b	June	2.24	2.25	2.19	1.82
EMPLOYEES, Non-Farm—m (lb)	May	46.1	46.0	43.3	37.5
Government	May	6.4	6.3	5.9	4.8
Factory	May	13.0	13.1	11.8	11.7
Weekly Hours	May	40.6	41.0	39.9	40.4
Hourly Wage (cents)	May	158.5	157.9	144.2	77.3
Weekly Wage ($)	May	64.35	64.74	57.54	21.33
PRICES—Wholesale (lb2)	July 10	179.7	180.2	163.0	92.5
Retail (cd)	April	205.8	205.8	184.1	116.2
COST OF LIVING (lb3)	May 15	185.4	184.6	169.3	100.2
Food	May 15	227.4	225.7	199.8	113.1
Clothing	May 15	204.0	203.6	184.7	113.8
Rent	May 15	135.4	135.1	130.6	107.8
RETAIL TRADE—$b**					
Retail Store Sales (cd)	May	12.1	12.0	11.3	4.7
Durable Goods	May	4.0	4.0	3.9	1.1
Non-Durable Goods	May	8.1	8.0	7.4	3.6
Dep't Store Sales (mrb)	May	0.86	0.85	0.82	0.39
Retail Sales Credit, End Mo. (rb2)	May	11.0	11.0	10.0	5.5
MANUFACTURERS'					
New Orders—$b (cd) Total	May	23.2	23.9	19.1	14.6
Durable Goods	May	11.5	12.6	8.5	7.1
Non-Durable Goods	May	11.7	11.3	10.6	7.5
Shipments—$b (cd)—Total**	May	23.7	22.4	19.3	8.3
Durable Goods	May	11.1	10.5	8.6	4.1
Non-Durable Goods	May	12.6	11.8	10.7	4.2
BUSINESS INVENTORIES, End Mo.**					
Total—$b (cd)	May	69.9	68.5	53.6	28.6
Manufacturers'	May	38.8	37.8	29.7	16.4
Wholesalers'	May	12.0	11.7	9.5	4.1
Retailers'	May	19.1	19.0	14.4	8.1
Dept. Store Stocks (mrb)	May	2.9	3.0	2.2	1.2
BUSINESS ACTIVITY—1—pc	July 7	175.2	190.7	173.4	141.8
(M. W. S.)—1—np	July 7	204.5	222.4	203.2	146.5

PRESENT POSITION AND OUTLOOK

(Continued from page 463)

Production of **FREIGHT CARS** continued close to the 10,000 a month goal as 9,644 cars were delivered in June, according to the report of the American Railway Car Institute. The railroads placed orders for only 6,793 cars in June and the industry's **BACKLOG** of orders fell to 147,725 on July 1. With the recent easing in freight traffic, the shortages of cars, which became acute late last summer and fall, have now virtually disappeared with a good balance between supply and demand for freight cars.

* * *

SHOE PRODUCTION during the first six months of this year totalled 249,673,000 pairs, 2.1% over the corresponding period of 1950. Much of this gain resulted from increased production of military footwear. In June, however, production of 37,500,000 pairs fell somewhat below the turn-out of 39,000,000 a year ago. For July, output is expected to fall sharply to about 30,000,000 pairs as a result of the vacation periods now in effect.

* * *

SHIPMENTS OF SLAB ZINC from domestic smelters in June amounted to 72,299 tons, an increase of 1,732 tons from the month earlier, according to the American Zinc Institute, Inc. Of the total deliveries, 3,239 tons went to the government, against 3,040 tons to that consumer in May. **STOCKS** of zinc held by producers totalled 15,791 tons at the end of June, a drop of 1,620 tons from May inventories. **UNFILLED ORDERS** on hand at the end of June were also down slightly to 73,304 tons from 73,942 tons a month earlier.

* * *

Sales of **RADIO AND TELEVISION TUBES** declined in May to 34,074,356 the Radio-Television Manufacturers Association reported. This compares with April sales of 35,883,627. For the first five months of this year sales of receiving tubes amounted to 188,235,226. A breakdown of the May sales figure shows that 21,187,963 tubes were sold to radio-TV set manufacturers; 2,580,935 to producers of other electronic devices; 8,113,122 for replacement; 1,930,983 for export; and 261,353 tubes to government agencies.

* * *

Expenditures for **NEW CONSTRUCTION** in June continued to advance, reaching $2.7 billion, against $2.52 billion in May and $2.57 billion a year ago, according to a joint report by the departments of Commerce and Labor. Effects of the re-armament economy were seen in the fact that private home building of

	Date	Latest Wk. or Month	Previous Wk. or Month	Year Ago	Pre-Pearl Harbor*
INDUSTRIAL PROD.—1 np (rb)**	May	223	223	195	174
Mining	May	167	167	148	133
Durable Goods Mfr.	May	277	278	231	220
Non-Durable Goods Mfr.	May	198	198	181	151
CARLOADINGS—t—Total	July 7	588	822	554	833
Misc. Freight	July 7	324	395	300	379
Mdse. L. C. L.	July 7	62	73	64	156
Grain	July 7	39	44	43	43
ELEC. POWER Output (Kw.H.) m	July 7	6.077	6,898	5,380	3,267
SOFT COAL, Prod. (st) m	July 7	1.4	10.6	1.6	10.8
Cumulative from Jan. 1	July 7	268	267	237	44.6
Stocks, End Mo.	May	74.8	72.1	44.8	61.8
PETROLEUM—(bbls.) m					
Crude Output, Daily	July 7	6.2	6.2	5.5	4.1
Gasoline Stocks	July 7	127	128	114	86
Fuel Oil Stocks	July 7	43	41	41	94
Heating Oil Stocks	July 7	70	66	57	55
LUMBER, Prod.—(bd. ft.) m	July 7	244	570	297	632
Stocks, End Mo. (bd. ft.) b	May	6.6	6.3	6.1	12.6
STEEL INGOT PROD. (st) m	June	8.66	9.09	8.14	6.96
Cumulative from Jan. 1	June	52.3	43.6	47.2	74.7
ENGINEERING CONSTRUCTION AWARDS—$m (en)	July 12	361	405	365	94
Cumulative from Jan. 1	July 12	8,049	7,688	6,244	5,692
MISCELLANEOUS					
Paperboard, New Orders (st)t	July 7	268	221	226	165
Cigarettes, Domestic Sales—b	May	33	30	32	17
Do., Cigars—m	May	479	444	425	543
Do., Manufactured Tobacco (lbs)m	May	19	18	19	28

PRESENT POSITION AND OUTLOOK

$909 million was down 23% from June 1950, while building for industrial, commercial and public utility purposes rose 129% to $179 million from the $78 million total a year earlier. For the first half of this year, total construction outlays reached almost $14 billion, up 16% from the same period of 1950. However, residential construction hit the same level in both periods at $5.3 billion.

* * *

RAYON SHIPMENTS during June totalled 107,900,000 pounds or 3% below May shipments of 110,900,000 pounds, according to the Textile Economics Bureau, Inc. For the first half of this year shipments amounted to 643,300,000 pounds, a new high record and 7% above the results for the same period in 1950. At the end of June producers' **STOCKS** of rayon were up to 16.9 million pounds from 16.0 million a month earlier but below the 20.3 million pounds held a year ago.

* * *

Expenditures for **NATIONAL ADVERTISING** in May were unchanged from a month earlier, but 19% ahead of May 1950. The increase from a year ago is the result of advertising gains of 10% for magazines, 11% for outdoor media, 15% for business papers and 221% for television. A decrease of 3% was shown for radio advertising while newspapers remained unchanged.

b—Billions. cb—Census Bureau. cd—Commerce Dept. cd2—Commerce Dept., seasonally adjusted monthly totals at annual rate, before taxes. cdlb—Commerce Dept. (1935-9—100), using Labor Bureau and other data. e—Estimated, en—Engineering News-Record. I—Seasonally adjusted Index (1935-9—100). lb—Labor Bureau. lb2—Labor Bureau (1926—100). lb3—Labor Bureau (1935—100). lt—Long tons. m—Millions. mpt—At mills, publishers, and in transit. mrb—Magazine of Wall Street, using Federal Reserve Board Data. np—Without compensation for population growth. pc—Per capita basis. rb—Federal Reserve Board. rb2—Federal Reserve Board, instalment sale credit and charge accounts. st—Short tons. t—Thousands. *—1941; November, or week ended December 6. **—Seasonally adjusted.

THE MAGAZINE OF WALL STREEET COMMON STOCK INDEXES

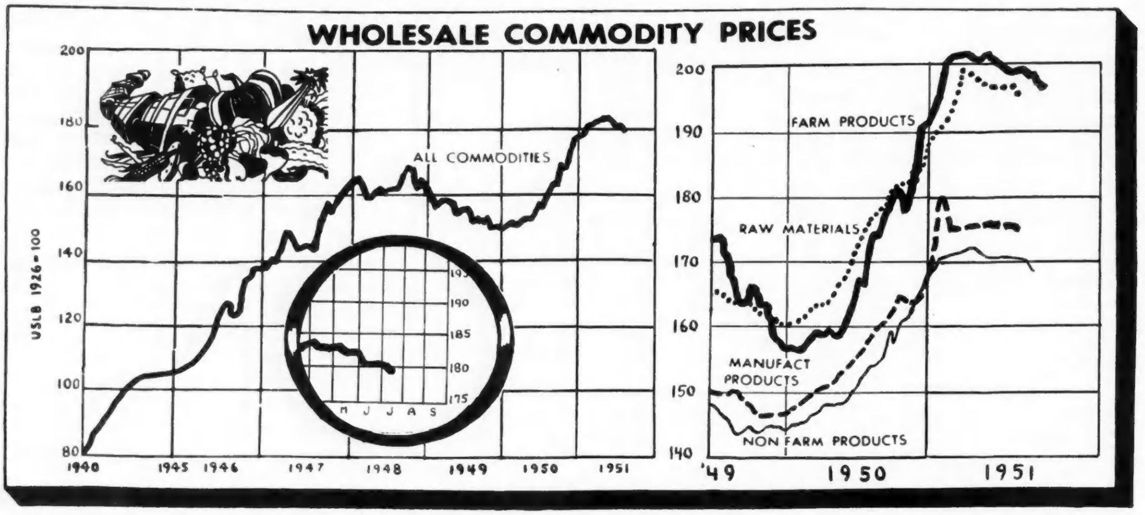
No. of Issues (1925 Close—100)	1951 Indexes High	Low	July 6	July 13
334 COMBINED AVERAGE	196.8	172.6	178.3	180.1
4 Agricultural Implements	292.7	246.5	258.8	261.3
10 Aircraft ('27 Cl.—100)	333.0	252.8	262.1	274.4
7 Air Lines ('34 Cl.—100)	764.7	634.0	647.1	647.1
8 Amusement	101.4	86.6	89.3	92.0
10 Automobile Accessories	257.6	216.2	225.4	227.7
11 Automobiles	46.3	36.1	37.8	38.2
3 Baking ('26 Cl.—100)	23.2	21.0	21.2	21.0
3 Business Machines	377.8	300.8	354.4	360.3
2 Bus Lines ('26 Cl.—100)	183.1	152.3	155.7	154.0
6 Chemicals	395.2	326.0	378.9	395.2a
3 Coal Mining	18.3	13.2	13.2	13.2
4 Communication	72.5	58.3	61.4	62.6
9 Construction	69.5	60.2	64.2	65.4
7 Containers	428.8	376.5	403.4	410.6
9 Copper & Brass	147.1	126.3	132.8	132.8
2 Dairy Products	83.4	75.9	76.7	77.5
5 Department Stores	84.5	66.0	67.4	67.4
6 Drugs & Toilet Articles	235.0	213.6	217.8	220.0
2 Finance Companies	293.4	243.0	293.4	288.5
7 Food Brands	200.9	171.4	175.0	176.8
2 Food Stores	118.4	103.8	106.0	108.3
3 Furnishings	75.0	65.7	67.0	67.0
4 Gold Mining	724.1	579.3	601.6	590.4

(Nov. 14, 1936, Cl.—100)	High	Low	July 6	July 13
100 HIGH PRICED STOCKS	117.0	107.11	110.63	112.15
100 LOW PRICED STOCKS	245.8	208.63	214.84	215.70
5 Investment Trusts	91.4	84.8	87.3	87.3
3 Liquor ('27 Cl.—100)	1202.0	1066.6	1135.4	1135.4
11 Machinery	206.4	177.7	183.5	183.5
3 Mail Order	152.0	125.3	128.0	129.3
3 Meat Packing	109.1	85.7	86.8	87.8
13 Metals, Miscellaneous	280.9	233.0	245.4	245.4
4 Paper	386.6	344.3	363.1	373.2
29 Petroleum	397.6	355.0	383.4	387.0
30 Public Utilities	152.8	142.5	145.8	147.2
9 Radio & TV ('27 Cl.—100)	31.4	26.6	28.1	27.6
8 Railroad Equipment	73.8	57.5	60.3	60.3
24 Railroads	45.4	34.2	36.6	37.3
3 Realty	41.0	34.3	35.5	35.9
3 Shipbuilding	181.0	139.1	144.1	145.8
3 Soft Drinks	395.5	320.3	333.8	323.7
15 Steel & Iron	169.5	134.1	141.5	144.5
3 Sugar	77.6	66.5	71.7	73.9
2 Sulphur	473.1	425.3	447.0	451.4
5 Textiles	223.6	193.3	199.4	199.4
3 Tires & Rubber	62.6	51.2	61.6	62.6a
6 Tobacco	86.1	75.3	76.9	78.5
2 Variety Stores	320.7	301.1	304.1	307.2
20 Unclassified ('49 Cl.—100)	127.3	109.4	112.9	114.0

a—New High for 1951.

Trend of Commodities

Commodity futures were mixed in the past two weeks with liquidation again in evidence at the end of the period as Communist peace-making intentions became manifest. September wheat futures after reaching a low of 233⅛ on July 9, rallied sharply to an intra-day high of 240½ on July 12 and closed at 236⅝ on July 16. Wheat prices were buoyed by unfavorable weather with the Kansas floods affecting trader sentiment. However, no wheat shortage impends as the Government report, reflecting conditions as of July 1, failed to support private predictions of crop deterioration and forecast a total harvest of 1.07 billion bushels which would top last year's bumper crop by 44 million bushels. Flood damage is not expected to cut this yield by more than 25 million bushels. The Department of Agriculture's cotton report came out on July 9 and estimated acreage in cultivation at 29.5 million acres, 58% above last year's plantings and the largest since 1937. If yield per acre is normal, the crop would approach the 18 million bale figure, while domestic consumption plus exports may not exceed 14 million bales. Cotton futures were lower in reflection of these considerations, with the October future down 1.21 cents from the price at which it closed the day before the report was released. Old crop positions were especially hard hit with the July future going off the board on July 13 at 40.50 compared to its closing of 44.60 on July 6. Coffee futures have declined in the past fortnight despite continued announcements of the Brazilian government's intention to stabilize prices near our cealing levels. The further months were weakest with the March 1952 future down 1.94 cents while the nearby July dropped only seven points.



U. S. DEPARTMENT OF LABOR INDEX OF 28 BASIC COMMODITIES
Spot Market Prices—August, 1939, equals 100

	Date July 16	2 Wks. Ago	3 Mos. Ago	1 Year Ago	Dec. 6 1941
28 Basic Commodities	327.6	339.3	374.0	286.3	156.9
11 Imported Commodities	348.1	353.6	410.9	291.8	157.3
17 Domestic Commodities	314.9	330.3	351.9	282.7	156.6
7 Domestic Agriculture	358.1	365.2	407.3	348.1	163.9
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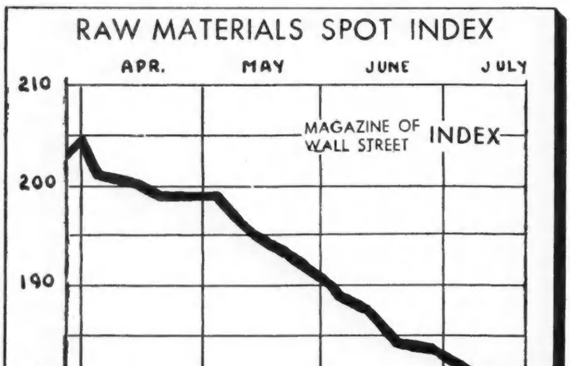
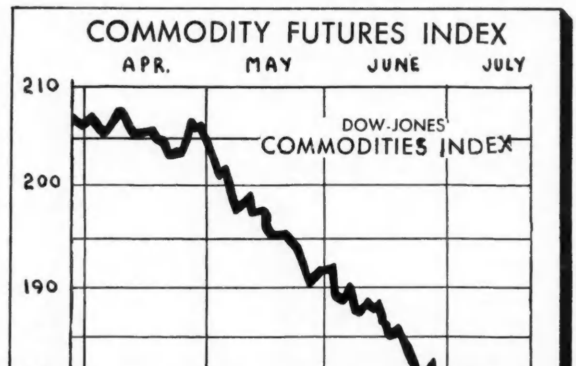


14 Raw Materials, 1923-25 Average equals 100

Aug. 26, 1939—63.0 Dec. 6, 1941—85.0

	1951	1950	1947	1945	1941	1939	1938	1937
High	214.5	304.7	164.0	95.8	74.3	78.3	65.8	93.8
Low	180.7	134.2	126.4	93.6	58.7	61.6	57.5	64.7



Average 1924-26 equals 100

	1951	1950	1947	1945	1941	1939	1938	1937
High	215.4	202.8	184.4	111.7	88.9	67.9	57.7	86.6
Low	178.5	140.8	123.0	98.6	58.2	48.9	47.3	54.6

Keeping Abreast of Industrial and Company News

Final orders in a $100,000,000 re-equipment program, believed to be the largest single fleet replacement ever undertaken in the airline industry, have been signed by Captain Eddie Rickenbacker, President and General Manager of **Eastern Air Lines.** The program will equip Eastern Air Lines with the world's first airline fleet designed for "overnight" conversion to jet power when these revolutionary new aircraft engines are released for commercial use by the military services. Today's authorizations complete procurement orders for a total of 90 greatly advanced "super" transports to replace the present operating fleet which will more than double the airline's present capacity over its trunk routes.

Commercial Solvents Corporation has been granted a Certificate of Necessity amounting to $20.4 million to expand its ammonia and methanol production facilities at Sterlington, Louisiana. The construction, which will start immediately, will double the present capacity of both ammonia and menthanol now being produced at Sterlington by high pressure synthesis using natural gas. In addition, a new unit will be erected for making ammonium nitrate, one of the most popular solid forms of nitrogen for use in the fertilizer trade. The need for nitrogen in the production of food and fiber has constantly increased and a condition of extreme shortage still exists. The Certificate of Necessity provides for rapid amortization at 50% of the estimated cost of the new facilities.

Construction will start early in August on America's first integrated mass production plant for guided missiles—a $40,000,000 U. S. Navy facility to be operated at Pomona by **Consolidated Vultee Aircraft Corporation.** The Pomona factory will comprise several one-story concrete buildings with an aggregate floor area of more than 1,200,000 square feet. The main manufacturing building will be 1280 feet long and 600 feet wide. Smaller buildings will house administrative units, engineering and experimental departments and modification operations. All buildings will be of modern architecture, with air-conditioning and other built-in conveniences installed to help achieve efficient volume production.

Wheeling Steel Corporation, the nation's ninth largest steel company, expects to spend an additional $24 million by the end of 1953 on its manufacturing plants to increase capacity and lower costs. The plans include modernization of cold reduced sheet facilities, reconditioning two bessemer converters and installing improved materials handling and additional annealing capacity at Steubenville, Ohio mine mechanization and building of a new coal washing plant at Harmarville, Pennsylvania, and installation of a new continuous galvanizing line at Martins Ferry, Ohio.

Philadelphia Electric Company announced that the largest turbine generator of its kind in the world, with a capacity of 200,000 kilowatts, has been ordered from Westinghouse Electric Corporation for its new Cromby generating station near Phoenixville, Pennsylvania. The Cromby Plant and related facilities which are scheduled for completion in the fall of 1954 will represent an investment in excess of $45 million. The new unit will be in addition to a 150,000 kilowatt generator already under contract, and will bring the total capacity of the Cromby station to 350,000 kilowatts. The projected turbine electric generator will weigh 1,500,000 pounds.

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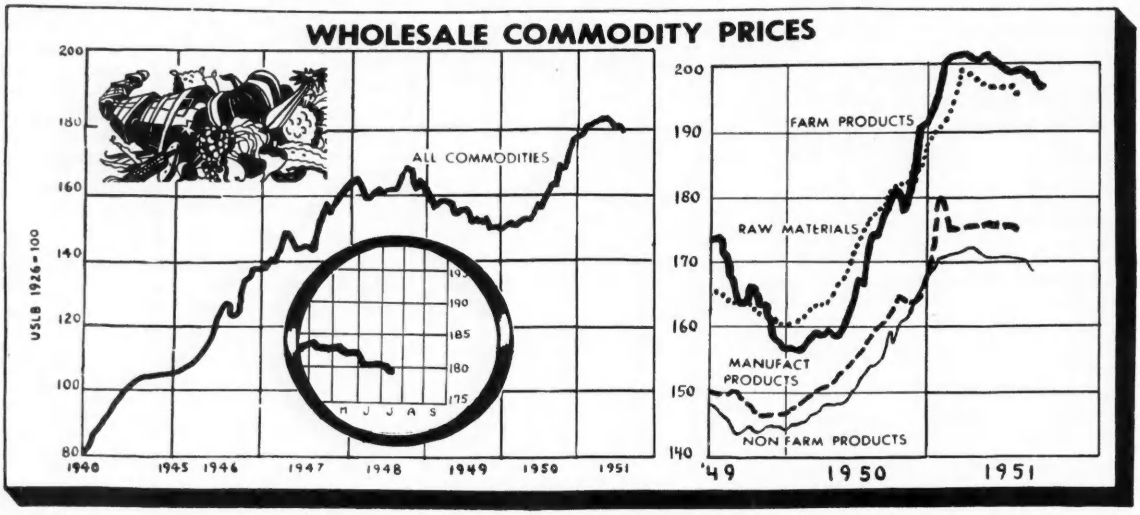

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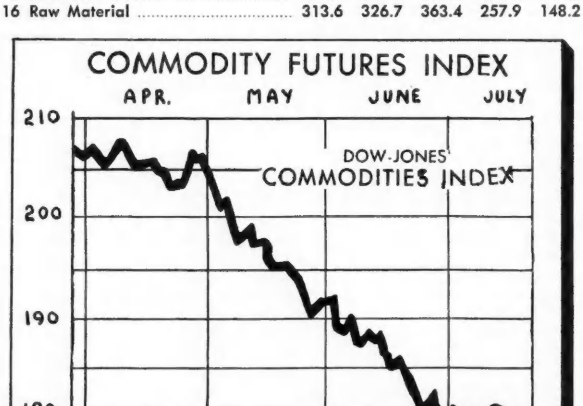

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New construction amounting to approximately $1,500,000 is planned by **Republic Aviation Corporation** according to an announcement by Mundy I. Peale, president of the jet building company. Present facilities for Thunderjet manufacturing amount to 1,650,000 sq. ft. of floor space. The company is currently building F-84 Thunderjet fighter-bombers for the U. S. Air Force. The backlog of production and experimental contracts exceeds $500,000,000.

Development of a tough new plastic yarn-carrying sleeve for use in textile mills was announced by the mechanical goods division, **United States Rubber Company.** The new sleeve is made from Uscolite, a thermoplastic blend of rubber and plastics. The new sleeve has more than five times the impact strength of phenolic varieties now in wide use in the industry. It can be used with cotton, rayon or the newer synthetic fibers spun on the cotton system.

Lockheed Aircraft Corporation of Burbank, California, has been selected to develop a new turboprop medium cargo airplane, it was announced today by the United States Air Force. Five companies took part in the design competition. Carrying the design designation L-206, the new jet freighter is distinguished by a squat, highly-utilitarian fuselage with large aft cargo doors and an especially sturdy floor built only 45 inches from the ground. Straight-in loading of bulky cargo without special freight handling equipment will be possible.

A large-scale program to produce all-weather turbojet engines with "hot noses" for the world's fastest known bomber, the Boeing B-47 Stratojet, was announced by the **General Electric Company.** In providing the first indication of the engine production necessary to meet the Air Force's powerplant requirements for the six-jet, swept-wing bomber, a company spokesman said supply lines would extend to "virtually every state in the nation." C. W. LaPierre, manager of the G-E Aircraft Gas Turbine Divisions, said the all weather engine—the first model of which is the J-47-GE-23—would be produced by General Electric and by the **Packard Motor Car Company** and the **Studebaker Corporation** as licensees.

The cathode ray tube storage system developed by Prof. F. C. Williams, noted English radar expert, is being introduced by **International Business Machines Corporation** into its new electronic calculators, the company revealed. IBM will use the Williams system under a licensing agreement with the National Research Development Corporation of London. In the cathode ray storage system; information required in a calculation is stored in the form of dots and dashes on the face of the tube in a manner similar to the projection of a picture on the familiar home television tube. As many as 2,048 items of information have been stored on a cathode ray tube with a 24-square-inch screen.

Pressed Steel Car Company announced that it had acquired the 53 year old Chicago Steel Tank Company, one of the nation's leading specialty tank makers. The latest acquisition brings to five the number of steel fabricating companies that Pressed Steel Car Company has acquired since its product diversification program began fifteen months ago. The Chicago Steel Tank Company acquisition includes two subsidiary companies, Steel Erectors, Inc., which operates as a field installation arm of the parent company, and Conduit Fittings Corp., makers of parts for electrical appliances and systems.

The development of a special window to minimize the effects of explosive forces was announced by the **Pittsburgh Plate Glass Company.** A glass-plastic laminate to be known as Flexseal Bomb Glass, the product is said to virtually eliminate the dangers of flying glass in explosion areas. The Flexseal Bomb Window will resist normal atmospheric pressures because of the special properties incorporated in its design. When these are exceeded by a bomb blast or pressure wave, the window will open automatically. This action releases the pressure, preventing th window frame from being blown in and greatly reducing the possibility of flying fragments.

VHF voice radio has been put to work to control train operations over 70 miles of the busy F M & P subdivision of the **Baltimore and Ohio Railroad,** between Fairmont, West Virginia and Connellsville, Pa. The installation was completed in June. It is the first radio control for over-the-road operation to be installed on this major eastern road, although the B & O has a number of limited range radio installations of the VHF type for control of terminal and marine operations. The radio network consists of eight fixed stations located in towers and yard offices along the right-of-way, 10 mobile units in locomotives, and 12 mobile units in cabooses.

Burroughs Adding Machine Company announced the acquisition of Control Instrument Company, Inc., Brooklyn, New York, designers and manufacturers of electronic instruments and fire control devices for the U. S. Navy. Control Instrument Company will continue, as a separate corporation, to use its facilities for defense production in this field. Mr. John J. Hyland will continue as President of the company. In making the announcement, John S. Coleman, President of Burroughs, pointed out that Burroughs' principal defense assignment has been the manufacture of aircraft and fire control instruments, and this new facility will become a part of the company's activities in this area.

Sun Oil Co. of Philadelphia will build an $8 million plant at its Marcus Hook, Pa., refinery to turn out more benzene, toluene and xylenes for the defense program. All three products are now in short supply. The new plant is expected to be completed late next year. Using the newly-developed "arosorb" process, it will turn out 13 million gallons a year of benzene, 30 million gallons of toluene and 15 million gallons of xylenes. The new benzene production will provide almost one-eighth of the Government's announced requirements of more than 100 million gallons a year. Benzene is used in the making of synthetic rubber, plastics, resins, "soapless soaps" and similar products. Toluene is required in the manufacture of TNT, and both toluene and xylenes are used in the production of aviation gasoline.

Fairbanks, Morse & Company has revised its plans for constructing a new plant in Kansas City, Missouri. The company now is going to build a $7,500,000 plant which will have a foundry for making engines and pumps as well as facilities for making scales. Last August when the company first disclosed its plans it said the unit would be a $5 million scale plant. The new structure, which will have approximately 500,000 square feet of floor space, will be erected by Stone & Webster Engineering Corporation. When in operation it is expected to provide employment for nearly 1,000 workers.

Answers to Inquiries

The Personal Service Department of THE MAGAZINE OF WALL STREET *will* answer by mail or telegram, a reasonable number of inquiries on any listed securities in which you may be interested or on the standing and reliability of your broker. This service in conjunction with your subscription should represent thousands of dollars in value to you. It is subject only to the following conditions:

1. Give all necessary facts, but be brief.
2. Confine your requests to *three listed securities* at reasonable intervals.
3. No inquiry will be answered which does not enclose *stamped, self-addressed envelope.*
4. No inquiry will be answered which is mailed in our postpaid reply envelope.
5. Special rates upon request for those requiring additional service.

Long Island Lighting Company

"Are Long Island Lighting Company's operations making good progress? What about their new financing plan?"

P. T., New Rochelle, New York

Long Island Lighting Company in 1950 completed one of the most successful years in its history. Aided by the addition of 36,212 new customers and by increased average use of electricity, the company in 1950 for the first time topped the billion mark in kilowatt hours of electricity output.

Sales for the year showed a gain of 24.2% over 1949. Electric revenues in 1950 were 18.4% above 1949 and 78.5% higher than in 1945 and gas revenues last year showed gains of 7.3% over 1949 and of 91.6% above 1945.

Despite increased costs resulting in large measure from the much greater volume of business done, net income for 1950 was $3,745,468. This was equal to $1.19 a share on the common stock, compared with $1.12 a share earned on a similar number of shares in 1949. Were it not for the extraordinary expense sustained as a result of the severe storm last November, amounting to $389,921 net after taxes, net earnings for 1950 would have been $4,135,389, or $1.31 a common share.

Early this year the company put in operation its Glenwood catalytic plant for reforming natural gas from the southwest. This plant, which represents an innovation in the industry, currently has a capacity of 31 million cubic feet of reformed gas a day. If the plant performs as expected, realized savings in expense (before income taxes), may amount to approximately $2,500,000 from operations in 1951, in addition to $370,000 of estimated savings from the use of gas as a fuel in the electric department. Completion of the third unit scheduled for Glenwood will almost double system's gas capacity and permit the addition of new house heating customers.

During the last five years the company spent $79,132,000 to increase its facilities, a 70% increase in total plant investment. Construction expenditures in 1951 are estimated at about $32 million depending on the availability of materials.

To provide interim financing for the new construction program the company has made arrangements with banks for a credit of $22,500,000, to be used as needed up to December 1, 1951.

As the first step in its permanent financing the company in May offered stockholders 524,949 new common shares in the ratio of one new share for each six shares at $13 a share.

Current quarterly dividend is 20c per share.

Merritt-Chapman & Scott Corporation

"Please report nature of business of Merritt-Chapman & Scott Corporation. Also recent operations and profits."

T. F., Bangor, Maine

Net earnings of $2,566,338 for 1950 was reported by Merritt-Chapman & Scott Corporation against $778,035 the year before. The company has for 91 years been active in the fields of industrial, building, marine and heavy construction, marine salvage and heavy hoisting.

The company's 1950 net earnings were equal to $6.00 a common share, compared with 1949 earnings of $1.74 per share. The 1949 per share earnings figure is adjusted to take into account the 40% stock dividend paid on October 16, 1950. Gross revenues last year were $37,723,419, compared with $38,979,081 in 1949.

Financial position improved and net assets at the end of the year totaled $10,160,779. Working capital increased $1,280,361, to a total of $7,005,557, and net value of the company's plant and equipment totaled $3,155,222.

Construction work on the company's books at the end of the year approximated $70 milion, against $43 million the year before.

The outlook for the construction industry for the year 1951 and some months beyond, appears good and this is partly due to defense preparation and plant expansion.

Operation of the company's Derrick and Inland Salvage Department, which commands the most powerful fleet of loading derricks in the country, were accelerated in 1950. Inland salvage activities also increased. Marine salvage operations are subject to wide fluctuations and this is due to the variables of marine accidents.

Dividends in 1950 totaled $2.49 per share and 40¢ is the current quarterly rate

A $1,557,290 low bid contract for construction of a fuel bulk storage facility at North Charleston, South Carolina, for the U. S. Army Corps. of Engineers has been awarded to Merritt-Chapman & Scott Corporation by the Charleston District, Corps. of Engineers.

Seaboard Finance Company

"Please report recent earnings and dividends of Seabord Finance Company."

F. A., Sacramento, California

Net income of Seaboard Finance Company, listed on the New York Stock Exchange, in the six months ended March 31, 1951, the first half of the fiscal year, amonted to $1,339,160 after all charges, including Federal income and excess profit taxes.

The earnings were equal to $1.03 per share on 1,094,638 shares of common stock outstanding at the end of this period, after providing for preferred dividends.

In the six months ended March 31, 1950, net income totaled $1,077,381, equal, after preferred dividends, to $1.00 a share on the 967,325 common shares then outstanding.

For the three months ended March 31 last, earnings were $648,844, or 50c a chare, compared with $556,451, or 49¢ a share in the same quarter a year ago.

Seaboard's gross receivables outstanding on March 31, 1951, totaled $70,439,717, an increase of $19,710,431 over the $50,729,286 on the same date a year earlier. The latter figure, however, does not give effect to approximately $8,500,000 in receivables purchased in June 1950.

In the first half of the current fiscal year, volume of business written in company's offices amounted to $53,627,116, compared with $48,024,656 for the corresponding period of the preceding year.

Four new loan offices are being opened in Arkansas, bringing the number in the Seaboard's system to 135 in 23 States.

Dividends in 1950 totaled $1.80 per share and 45¢ is the current quarterly rate.

Hewitt-Robins, Inc.

"Please furnish data on Hewitt-Robins, Inc., including financial position."

A. C., Baton Rouge, Louisiana

Hewitt-Robins, Inc. reported 1950 net earnings after all charges of $1,266,929, equal to $4.55 per share, compared to net earnings of $628,765, or $2.25 per share in 1949. Net sales for the year ended December 31, 1950 totaled $23,451,792, compared to sales of $19,792,292 in 1949. Both sales and earnings in 1950 were the highest in the company's history. While 1950 earnings more than doubled those for 1949, net income in 1950 did not greatly exceed that of 1947, the best previous earnings ($1,223,618) in company's history.

Net sales for the first quarter of 1951 were $8,395,119 and net income amounted to $282,163, equal to $1.01 per common share. This compares with the first quarter 1950 net sales of $4,460,713, net income of $127,875 equal to 46¢ per share.

The company revealed that a $1 million expansion of conveyor belt-making facilities will be undertaken at the company's Rubber Division plant in Buffalo. 1950 dollar sales volume of the Rubber Division (belting, hose and molded rubber goods) exceeded 1949 sales by 30%.

Sales of Restfoam also continued to increase during 1950. Company also reported substantial increases in Backlogs of Conveyors and Engineers Division.

The company's financial position continued to improve during 1950. Cash increased by approximately $440,000; accounts receivable by approximately $993,000; inventories by approximately $836,000 and working capital by $483,000.

Dividends including an extra totaled $2.15 in 1950 and 40c is the current quarterly rate.

Sharp & Dohme, Inc.

"I understand that pharmaceutical companies have shown good growth in recent years and would be interested in receiving latest data on Sharp & Dohme, particularly its research and expansion program and also financial position."

—T. A., Chester, Pa.

Sales and earnings for Sharp & Dohme, Inc., for 1950, the company's 106th year of operation, established new records for the fifth consecutive year.

Consolidated net sales moved to a new high of $42,117,013, a gain of approximately 8% over the 1949 figure of $38,989,717.

Consolidated net income for 1950 was $5,275,858, against $4,759,641 in 1949, a gain of approximately 10%. This amounted to $4.27 per common share as compared with $3.95 per share for the previous year based on shares outstanding at the end of each year.

Consolidated current assets at the year-end totaled $26,072,360 and current liabilities $7,727,400, leaving a balance of $18,344,960 as working capital. Largely due to the company's expansion and improvement program which involved the expenditures of more than $5,500,000 during 1950, working capital was $2,387,372 less than in 1949. Common stock outstanding at the year-end had a book value of $15.53 per share, after deducting the voluntary liquidation value of the $4.25 preference stock. This compares with $11.06 per share on December 31, 1949.

Net sales for the first three months of 1951 amounted to $12,204,945 and net profit $1,242,455 equal to $1.00 per share, compared with first quarter 1950 net sales of $10,475,753, net profit of $1,412,960 equal to $1.15 per common share.

At the West Point plant, the construction phase of the new $4 million Medical Research Laboratories has been completed, and the building, which will replace present research facilities at Glenolden, Pa., is expected to be ready for occupancy this Fall.

Currently under construction at the West Point site are new plasma processing laboratories which, when in production, will help meet increasing military and civilian defense needs. The new building will augment the company's already large plasma production capacity at its Glenolden Laboratory which will continue to operate.

Under an agreement with the Armed Services Medical Procurement Agency, the new laboratories are being constructed by Sharp & Dohme and will be equipped by the Government, and will be operated by the company under a long-term lease to the Government.

During 1950, the company released nationally 26 new products and dosage forms and 22 others were released in trial districts.

Supplementing research activities conducted at the company's laboratories, Sharp & Dohme has reported additional research through financial grants to leading clinicians and other investigators in hospitals, research centers and medical schools throughout the U. S. and Canada.

Dividends in 1950 totaled $1.70 per share and 90c has been paid thus far in the current year.

M & M Wood Working Company

"As standing timber is considered a good inflation hedge in some quarters, I would appreciate receiving recent data on M & M Wood Working Company with figures on the company's timber holdings."

—V. J., Portland, Maine

Reporting on a seven-month period to Feb. 28, 1951, due to a change in its fiscal year, M & M

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What About the Tobaccos?

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share. Nevertheless, the generally higher rate of taxes may reduce the company's sales for 1951. Sales of its Camel cigarettes are in the leading position and production efforts with regard to Cavalier are being rewarded. Operating expenses will increase this year, due to the added load of advertising increases and this in addition to the added amount expected to be paid for taxes should cut into per share earnings. It is too early to estimate final returns for 1951 but they should cover dividend payments of $2.00 by at least a 50% margin. The stock is currently quoted at around 32 and remains a stable investment with its essential attraction in its good yield.

Liggett & Myers Tobacco Company

The stability of this company's earnings have long been a feature. However, last year the company ran into difficulties as a result of the virtual embargo by the Phillipine government on the importation of cigarettes. Sales have shown an increase in the earlier part of the current year and are continuing on a satisfactory basis. While, as with all the other large companies in this field, principal reliance for sales rests on a single product, in this case Chesterfield — new efforts are being made to attract public interest to other products. In this connection, the company is having good results with its revival of Fatima cigarettes. The net E.P.T. base is about $5.30 a share so that the company will not be unduly affected when it is considered that earnings for 1950 were $7.06 a share. However, net will undoubtedly be reduced somewhat as a result of the expected increase in the tax bill and may decline to somewhere in the neighborhood of $6.50 per share. Dividends have been averaging $5 a share, including the $1 extra payment, so that the prospective margin of earnings is adequate, especially in view of the company's great financial strength.

P. Lorillard & Co.

This company made a better than average gain in 1950 with regard to sales, with sales of Old Gold holding up and good results in its king-sized "Embassy." In this connection, it is worth pointing out that practically all of the leading manufacturers, to supplement the market for their major earners such as Lucky Strikes, Camels, Old Golds and Chesterfields, have greatly increased their efforts in the larger-sized cigarette field (king-size). In the first quarter of this year, Lorillard failed to continue its earlier increase and turned in a report that was not quite as good as some of the other companies. Earnings were fifty cents for the period against 59 cents the year before. EPT exemption for Lorillard is roughly $1.70 a share. Earnings last year amounted to $2.69 but based on the situation so far, and especially because of the impact of new taxes, it seems that the company will not be able to cover its dividends by more than a moderate margin. Therefore, comparative narrowness of earnings over dividends would seem to make this issue more speculative than others in its class.

Philip Morris & Co., Ltd.

For the first three months of the fiscal year ending with June, Philip Morris showed an increase in sales from $75,859,000 to $77,869,000, compared with a year ago. On a per share basis, this amounted to $1.32 against $1.46. However, shares outstanding now are 2,448,121 against 2,331,544. Prospects are for a continued increase in the export business of the company due largely to demand from armed forces overseas. In the domestic branch, the company experienced heavy buying in the early part of the year due to the desire of wholesale buyers to anticipate higher excise taxes. Since this period, liquidation of excessive inventories in the hands of dealers and wholesalers has proceded satisfactorily. The company's base for exemption in EPT is $3.18 a share. Last year's earnings were $2.62 a share during which period dividends of $3.50 were paid. The management of this company has an exceptionally fine record with regard to results received from advertising. Financial position is adequate. The shares seem inviting from the income standpoint and at present prices of about 47 are selling at approximately ten points under the high for 1951.

Cigar and Snuff Companies

Companies engaged in the cigar manufacturing branch of the industry are under constant pressure to hold their markets as the basic trend among users of tobacco has been away from cigars to cigarettes. This phenomenon has been in existence for many years. However, during periods of unusual activity in business such as we have to-day, these companies benefit since increased buying power enables enthusiasts to increase their cigar consumption. This has been made especially possible by the increasing rate of armaments production.

Among the leading cigar companies, Consolidated stands out as a consistently large earner. Among its products are some of the best known cigars in the medium-price field. Indicating the progress made by the company is the fact that in the past five years, it has increased its percentage of national production in this field from 20.2% to 21.7%. In 1950, dollar sales advanced about 6%. The outlook for the current year is good. EPT amounts to about $6.40 a share which affords a good protection. However, the prospect for higher corporation taxes may reduce earnings to possibly $6.50 a share. The dividend rate is so conservative that little concern need be felt regarding its safety.

Of the other cigar companies, Bayuk, though the downtrend in sales has been halted, would still seem to be faced with the problem of high costs and severe competition. For this year, there should be some improvement in sales and, with somewhat higher selling prices, it is probably that Bayuk may show some improvement over the 94 cents a share earned in 1950. Excess profits taxes will not materialize since the company has a very high base at $2.29. The dividend position, despite the outlook for an improvement, is not secure especially in view of the fact that its loan agreement has imposed severe restrictions. The stock naturally must be considered quite speculative.

General Cigar operates mainly in the very low-priced field. Rising costs in this field are difficult to pass on to consumers without

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What About the Tobaccos?

(*Continued from page* 471)

emerging into a higher price group where competition would be difficult to withstand. In 1950, earnings were $1.15 a share, representing a decline of about 13% from the previous year. The company has been promoting the sale of some very low-priced products and this may have some beneficial results. There is no EPT problem and earnings should show some improvement. However, the margin of earnings over dividends is slight and the 25-cent dividend cannot be considered as without uncertainties.

The three snuff companies, American Snuff, G. W. Helme and U. S. Tobacco, the latter also being a large manufacturer of smoking tobaccos, are traditionally among the most stable not only in the tobacco industry but in industry as a whole. The three are sound producers of revenues and have paid dividends for a great many years. For those requiring a high degree of safety for their income these three stocks recommend themselves for their inherent soundness.

Bank Earnings for the First Half —Outlook for the Second

(*Continued from page* 451)

of bond profits realized on sales. Moreover, such profits are regarded by bankers as quite different from genuine operating earnings and are treated separately on the books; in most cases they are not even taken into income account but are credited directly to reserves.

While government bonds make up the preponderant share of the total investments of commercial banks, the holdings of corporate, state, and municipal bonds are nevertheless substantial and are rising, in line with the pattern of interest rates generally. This has provided a minor but increasing source of revenue.

Expenses and Taxes Up

Unfortunately for the banks, the inflationary forces that swelled their revenues have boosted their expenses in four principal categories that may be referred to briefly as follows:

First, in salaries of employes, which have had to be raised substantially since the ending of the World War II wage freeze, in order to keep pace with the advance in wage rates throughout business generally. Additional labor costs have come from the adoption of pension plans, shortening of working hours, closing on Saturdays, lengthening of paid vacations, loss of experienced men to the armed services, high labor turnover and training expense, and — in too many instances — lowered efficiency.

Second, the rise in interest paid out on time deposits, made necessary by the rising trend of interest rates generally and by the aggressive competition for savings deposits by the mutual savings banks and the building and loan associations.

Third, the increased cost of stationery and other supplies. In a large bank, most employes are quite indifferent to waste in such items, yet the total cost runs up into enormous amounts. New office machinery also has become very expensive, although savings in high labor costs continue to justify a program for the systematic purchase of the modern typewriters, adding machines, calculators, and specialized equipment for bookkeeping and record-handling.

Commercial Banks and Taxes

Fourth, the increase in federal income and excess profits taxes, which applies to banks as well as to other corporations. More of a commercial bank's earnings will be exposed to the excess profits tax than was the case heretofore, and for every extra dollar that may be earned this year, only a small fraction — 18 cents under the proposed rates — can be carried through to net income.

In addition, many banks have by this time used up the maximum tax-free reserve set up against possible losses on bad loans. Their taxes may be increased by the formula for this reserve, based on a 20-year moving average of losses in past years, due to dropping from the average the early 1930s which were years of heavy losses.

A partial offset to increased federal taxes, however, will be the reduction in assessment of premiums payable to the Federal Deposit Insurance Corporation, effective for the first time on July 1, 1951 and amounting to a rebate of 56 per cent. This rebate will benefit most of the big "money market banks" — since they paid the highest premiums because of their large individual deposits but received the lowest insurance coverage.

Commercial banks have built up their capital steadily since 1945 through limiting their dividends to a conservative share ings and by adding the major por- — often around 40% — of earntion to surplus account. In addition, a number of the banks recently have increased their capital acount by the offering of new shares for cash. Augmenting capital funds from either of these sources improves the strength and liquidity of the bank, since it lowers the ratio of deposit liabilities to capital funds, and raises the ratio of cash to deposits.

Although dividend payments by some of the banks have become more liberal as earnings improved during the past year, it is generalily conceded that such policies will continue to be quite conservative and that bank stocks should not be bought on the expectation of big dividends, stock splits, etc. Neither are bank stocks promising as short-term speculations for price appreciation. The real appeal of good banks is in their stability, the essential character of their services, experience of their management and organization, and their demonstrated success in maintaining satisfactory earnings in the face of constantly changing conditions of either peace or war.

Major Economic Adjustments If Shooting War Stops

(*Continued from page* 438)

next few weeks on whether or not we should cut back arms production, a realistic approach would indicate that there will not be more than a comparatively small reduction of the over-all requirements, the bulk of this decrease coming from an expected 2 billion cut in the foreign aid program. It seems therefor that cash spend-

ing by the government will not be less than 65 billions and probably closer to 70 billions for the year ending June 30, 1952 compared with 45 billions the previous year.

Plant expansion will amount to about 25 billions for 1951. There may be some small reduction in this figure next year as some manufacturers may hesitate to embark on expansion programs, both as a result of high costs and also because they may now have some doubts as to the permanence of high industrial activities, looking ahead to 1953 and 1954; on the other hand, there are firm commitments to build many large plants in industries such as steel, chemical and aluminum and others heavily involved in the armaments program, and these will be carried to completion. All in all, this new construction in 1952 is likely to continue on a pace similar to 1951, except possibly a trifle slower.

General Recession Not Likely At This Time

Undeniably, for the period directly ahead there will be some easing of tension. This will probably be reflected in a somewhat slower pacing of arms production and plant expansion though the over all figures should not change much. Consumer psychology has already been affected and emphasis will naturally be on sales promotion. Competition will therefor become keener. On the other hand, the very high continued rate of arms production will greatly tend to support the economy and as long as this feature remains it is difficult to see the possibility for a genuine recession generally in the period ahead, although individual industries will have to contend with the uncertainties presented by the cessation of hostilities.

Behind all this lurks the strong probability that taxes will not be sufficient to meet the government's requirements and that a deficit of some proportions, instead of last year's surplus, is in sight for fiscal 1952. This again, as it has in the past, may promote a renewed inflationary psychology but this is as yet a considerable period off. In the meantime, business will have to contend with the mildly deflated outlook which the hoped-for ending of hostilities has produced.

Second Quarter Earnings

(*Continued from page* 443)

operating earnings, they tend to act as a ceiling to an earnings increase, and as a floor to an earnings decrease, thus having the effect of stabilizing the net income after taxes. To the investor, this means that taxes will prevent him from obtaining the full benefit of any further improvement in corporate earnings, but at the same time will cushion him against the full effect of a falling off.

High taxes thus tend to iron out the fluctuations in operating earnings in a way similar to the LIFO or last-in-first-out method of inventory valuation, by damping down either the apparent swelling or the shrinking that might otherwise be caused by outside influences—in that instance, changes in the price level.

Such high taxes also act as an incentive for corporations to build new plants where they obtain government permission, because of their use in the defense program, to charge off a substantial share of the cost over a period of only five years instead of amortizing it at the usual rates based upon an expected life ranging, according to type of construction, from twenty to fifty years. To date approval of five-year depreciation has been given to projects totaling over $8 billion. Unless the shareholder understands the character of such transactions, he will not realize that the earnings as currently reported represent an under-statement, for the reason that cost of the new plants, instead of being treated in full as capital outlays, are being added (via the stepped-up amortization charges) to the burden of operating expenses and thus tend to depress the reported net income correspondingly. It also follows, and should be appreciated by the investor, that such new and modern plants represent valuable hidden assets, not revealed by the net depreciated valuations at which the fixed properties are carried on the balance sheets.

High taxes, of course, can stabilize net income only to the extent that earnings are being produced. Taxes alone cannot bring about a net profit if the operating earnings disappear, either as a result of a collapse in volume of sales or a soaring of costs beyond control. Both of these dangers are becoming more imminent in the second half-year, as more companies are forced by material restrictions to curtail their output of civilian goods without having secured military contracts to compensate, and as more companies find their earnings eaten into by rising costs and an inability to obtain increases in OPS selling prices.

Railroad Earnings

Railroads continued to make a good showing in the second quarter, although the gain over the corresponding period of a year ago was apparently not as sharp as in the first quarter when net income of all class 1 roads almost doubled. Freight and passenger traffic are still running unusually heavy, and revenues have for some time been comparatively free from the disastrous effects of major strikes, including strikes on the railroads themselves.

Because of the important part of the railroads in the national defense program, it has been announced that the expansion plans of transportation facilities will be carried forward even if the conflict in Korea ends. Some of these capital expenditures have received government approval for 5-year amortization. Railway car builders have, as stated above, been given an increase in allotments of steel, despite the metal's short supply on an overall basis.

Railroad expenses for labor and materials purchased have followed the generally upward trend. Railway labor disputes repeatedly have been settled by increases in wages and shortening of hours. Inasmuch as the railroads, taken as a group, are no longer in the class of "growth industries" whose rising costs can be offset by expanding revenues, it has again become necessary for the roads to apply for higher rates on both freight traffic and passenger service. Unfortunately, higher rates have never in the past proven to be a permanent solution to their financial problems, since every rise in rates tends to divert more business to competing agencies of transportation.

Competition to Railroads

Examples of this competition are to be seen on every hand. Two of the fastest-growing industries in the United States are air transport and motor trucking, while the much older-established motor bus business that attained enormous size years ago is still growing vigorously. In an exhaustive survey of commuter transportation into New York City, the startling findings were announced last month that, despite a growth of 19% in the total number of commuters during the twenty years between 1930 and 1950, the number carried by the railroads actually declined by 2%. Those carried by the Hudson Tubes dropped by 42%, whereas those carried by autos and buses jumped by 211%.

Editor's Note: Second Quarter Earnings will be continued in the next issue with an additional table of data on important companies.

The Attraction of Defensive Stocks At This Time

(*Continued from page* 441)

Financial stocks also may be included in this round-up of defensive stocks, for banks and insurance companies have scarcely been overxploited. Moreover, these groups are regulated and supervised to such an extent that they are closely akin to public utilities. It is interesting to note also that earnings of banks have shown encouraging improvement in recent months. Among the popular issues in this group are Chase National and Chemical Bank & Trust. Figures on these banks are given in our banking review in this issue.

Chase National

Chase is regarded as one of the three largest banks in the country. It operates 27 branches in New York City and 17 overseas. Earnings show promise of registering modest improvement over the $2.50 a share of 1950. Indications point to maintenance of the $1.80 annual rate, including an extra of 20 cents a share.

The Chemical operates eighteen branches, and its chief activity is commercial banking. Earnings show promise of reaching $3 a share this year, closely approximating results of recent years. Dividends are expected to be maintained at the recently increased rate of $2 annually.

For Profit and Income

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to loose talk. In any event, the $3 dividend is as secure as any dividend can ever be. Selling at roughly 11 times earnings, to yield better than 5.3% currently, the stock is one of the most desirable holdings in the electric power industry. Few utilities have such wide dividend coverage under prospective higher tax rates; and probably none has a better chance for an eventually higher dividend, when expansion needs taper off.

Sell It?

American Zinc, Lead & Smelting owns or leases low-grade zinc mines; and is a smelter of custom or purchased zinc ores, since smelting capacity exceeds mining capacity. To say that this company has thrived under unusually favorable conditions is to put it mildly. Thus, there was an interlude without any dividends between the war year 1917 and the war year 1945. The best earnings during World War II were 87 cents a share in 1943. The best earnings thereafter, but prior to 1950, were 98 cents a share in 1947. In 1950, thanks to high prices, earnings soared to $5.14 a share; and dividends totalled $1 a share. Earnings will no doubt be lower this year, and still lower next year, allowing for higher taxes. The stock, now at 17⅛, made highs of 19⅝ earlier this year, 20 in 1937 (on a deficit and no dividend), and a ridiculous 49¼ in 1929 on net of 33 cents a share and no dividend. Is 17⅛ unduly high? Well, there has been at least some basic improvement in this situation; but the stock sold at 7 or below within each year from 1929 through 1950; and under 5 in a majority of past years.

Partners

Exceptional strength in American Viscose is not unrelated to exceptional strength in Monsanto Chemical. These two companies are joint owners of the new Chemstrand Corp., a $100-million venture, which will make nylon and a wool-like synthetic under du-Pont license. As it will be some time before Chemstrand is in production, much less making money, it may be that too many chickens are being counted, too far ahead, by the stock market. The textile business, including rayon, is mighty sour right now. After higher taxes, earnings of Viscose in 1951 are very unlikely to equal 1950's record $7.83 a share. The chemical business is active, but per-share net of Monsanto figures to be materially under last year's record $5.37 a share, allowing for higher taxes and increased share capitalization resulting from conversion of the $4 preferred. Both stocks have long-term merit as growth situations, but this column can see no need to reach for either.

Are The Sugars Vulnerable To Peace?

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12% over last year, and U. S. beet sugar production is also well over last year. While there has doubtless been a moderate increase in consumption, total supplies (including "invisible" ones) seem quite adequate. Yet either consumption demands have been underestimated or a new wave of global stock-piling is under way. Increased use of sugar products to produce alcohol may be a factor. The "world price" (applying principally to Cuban exports to Europe) has risen above the U. S. price level a very unusual development, since the world price historically has been substantially lower.

The Cuban sugar stocks appear to have good prospects for the usual dividend extras in the fall (most of the producing companies end their fiscal year on September 30 and pay extras when they can size up the results for the year). Despite drought

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Are The Sugars Vulnerable To Peace?

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last year which affected some companies, the Cuban crop may approximate 6.4 million short tons, about 4% more than in the previous year. U.S. imports from Cuba (regulated by quota at Washington) have increased about 8%, so that Cuba's balance to sell in 'world" markets (the area outside of the U. S.) is smaller than last year, partially explaining the sharp rise in world prices. Moreover, Cuba has been able to sell its exports of blackstrap molasses at 20 cents a gallon – three or four times the price obtained last year.

Prospects for generous dividend disbursements by the Cuban sugar producers seem improved by passage of the Cuban tax law on May 22. While this law is very difficult to interpret, in effect it provides a 4% tax on surplus at June 30, 1951 in excess of 30% of a companys capital stock. Also if surplus at the end of the company's fiscal year exceeds 100% of the stated value of capital stock the company must distribute its entire earnings within the next half year or pay 4% tax on the income (half of the dividends may be paid in stock).

U. S. Cuban Interests

More than one-quarter of the 161 Cuban mills are run by U. S. interests and produce nearly half of Cuba's sugar output. One interpretation of the law is that it intended to force division of profits by small family-owned companies, but it may penalize larger companies which have tried to build up strong financial positions. Where Cuban companies have small capital and large reserves the new tax may cause stock dividends to be paid to bring about a more even balance. However, companies incorporated in Cuba are subject to a holding tax of 5.8% on cash dividends and this might also apply to stock dividends, plus a 9% capital stock levy. As to cash extras to stockholders, some companies may prefer to pay the tax rather than dissipate some of their working capital which is frequently required to balance heavy inventories.

The current outlook for the Puerto Rican companies seems somewhat less favorable than for the Cuban, since production is expected to be only slightly in excess of last year and shipments to the United States are running about 14% under a year ago. However, because of high prices, earnings are expected to be well maintained, and may show further gains in 1951-52.

As suggested above, U. S. beet sugar producers are in less favorable situation though they too will benefit by rising prices. Sugar beet acreage is being partly diverted to other crops, it is reported, and labor conditions are less favorable than last year. Some of the beet sugar companies are heavy users of Mexican labor and recent Washington legislation and agitation over the "wetbacks" (migratory Mexican laborers who cross the border by wading or swimming the Rio Grande river) may affect methods of handling all Mexican labor in this country. This may tend to raise labor costs for the beet sugar people. Future prospects for these companies is therefore clouded by possible higher wage costs, plus the inroads of higher federal taxes, combined with smaller acreage.

The outlook for domestic cane sugar refiners also seems rather mixed. On the basis of present allotments, the supply of raw sugar to be processed may be about 11% smaller than last year. While this may be more than offset by higher selling prices and better spread between raw and sugar prices, net gains may be too small to absorb higher Federal taxes. It appears likely that present regular dividend rates can be maintained, though extras may be less generous.

Position of Sugar Stocks

Have the sugar stocks fully discounted the recent improvement in the outlook for the industry? Sugar stocks as a group have made a less favorable market showing since the end of World War II than industrial stocks generally. From January 1, 1946 to the middle of 1949 the sugar index declined faster than the general market, dropping nearly one-half in value; and the recovery to the end of 1950 was only about in proportion to the industrial average, so that sugars continued to lag considerably behind the market. In the first half of 1951, the sugar average continued to make a poor showing, gaining only about 1% while the industrial average showed a net increase of about 4%. Recently, however, there has been a little more interest in the sugars.

Of course, if recent prices are compared with the 1950 lows there have been some good moves in individual sugar stocks. Thus West Indies has about doubled, Cuban Atlantic is up 80%, and Cuban American about 47%. Among the Puerto Rican producers South Porto Rico is up 70% and Central Aguirre 40%. Beet sugars didn't do so well: American Crystal gained about 22%, Holly 19% (despite oil prospects) and Great Western only 6%. There was a mixed showing for the refiners, with American gaining 67% while National was up only 4%. Obviously the Cuban and Puerto Rican stocks have fared much better marketwise than the beet sugars and the refiners, and this tendency seems likely to continue unless world sugar prices have a decided slump in the near future.

Individual Corporations

Cuban American Sugar is an important producer with annual reevnues of about $70 million. Profit margins are relatively low, amounting to only 7.2% in 1950. The company has no funded debt and only a small issue of preferred stock. Cash position was built up by withholding dividends during a 13-year period ended 1942, and the company is now in relatively strong position with a ratio of cash to liabilities of nearly 2 to 1.

Cuban Atlantic Sugar is the largest Cuban producer with revenues of $92 million. Profit margins are relatively good though variable, last year's figure being 11.6. The company has a small funded debt, with no preferred stock. Cash position is fair but not as strong as Cuban American. Dividend payments which were resumed in 1937, have been conservative in recent years.

West Indies Sugar, with annual sales of $41 million, enjoys high profit margins which last year amounted to 26%. The common stock is the sole capitalization and dividend payments have been conservative. As a result the current financial position is strong, and working funds amounted to $26.50 a share as of September 30, 1950.

South Porto Rico is the most important company in this area, with sales of about $31 million. Profit margins are high (28.6% last year). Earnings have been excellent since 1941 when a small deficit was reported. The company has no funded debt and only a small issue of non-redeemable preferred stock. It has such a large cash position that it can make generous dividend disbursements—last year they exceeded the earnings.

Central Aguirre is a relatively small producer in Puerto Rico with sales of $16 million. The company is primarily a holding company. While the capitalization is conservative, cash position seems somewhat on the low side. However, the relative stability of earnings has permitted dividend payments over the past 36 years.

American Crystal Sugar is the third largest beet sugar producer with revenues of $38 million. Profit margins were 12.4% last year, lower than Great Western but better than Holly. Capitalization is conservative, and the cash position was improved recently by sale of the "largest lima bean field for $6,000,000. The record of payments has been erratic, with omissions in 1938-39 and 1944-45.

Great Western Sugar is the leading beet sugar company with $71 million sals last year, when profit margins were 16.3%. The company has no funded debt but there is a small issue of non-callable preferred. Cash position has deteriorated in recent years, due to higher inventories and fairly generous dividend payments. However, last year bank loans were paid off, and the financial picture seems generally satisfactory.

Holly Sugar ($48 million revenues) makes a rather poor operating showing, with a profit margin on only 11.5% last year and 8.7% in 1949. The company has a fair amount of debt and preferred stock, and cash items seemed somewhat on the low side as last reported. However, the dividend policy has been conservative and the lack of cash appears due to increasing inventories. The company's oil and gas interests add some speculative appeal to the stock.

American Sugar Refining is the largest sugar company, with 1950 sales of $287 million. However, profit margins amounted to only 6.4% last year. Earnings have improved greatly since the deficits of 1938-39 and the company now maintains a very strong cash position.

National Sugar Refining, second largest refiner with sales of $152 million has an unimpressive record. Profits are quite small, having averaged between 3 and 4% of sales in recent years. However, the company has an all-common stock capitalization and maintains a good cash position. Dividend policy is conservative.

Outlook For Food and Dairy Companies In The Second Half

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endeavored to pass along higher raw materials costs. The result was over-production. Substantial inventory losses had to be absorbed in disposing of accumulated supplies. Nevertheless, frozen foods operations look promising for continued growth.

Fruits and vegetables prepared for quick serving have become increasingly popular in spite of their higher retail costs. With many women returning to war plants and with family income expanding, consumption of frozen foods promises to expand this year. Profit margins are wider as a rule than on canned goods.

Military requirements of canned fruits and vegetables seem likely to continue at a high level for some time to come. This factor should counteract slackening civilian demand, which reached abnormally high levels last year in anticipation of scarcities which failed to materialize. Marginal companies in this group may suffer to a greater extent than those which process nationally advertised brands. When supplies are plentiful, the public usually places reliance on brands with which it is familiar.

Canning Companies

Operations in food canning are the most speculative of any division of processing, for while consumption holds at a fairly steady rate, supplies are dependent on

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Outlook For Food and Dairy Companies In The Second Half

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nature and are subject to adverse conditions. Events such as the Korean outbreak a year ago also contribute to divergent trends. The sudden wave of consumer demand at the retail level caused distribution problems. Some processers were unprepared for the spurt in buying with the result that they were unable to obtain their share of increased volume, while others fared better than would have been possible under normal conditions.

Although inventories in the hands of processers were unusually low at beginning of the new canning season this year and major companies are not preparing to put up larger packs than in other years, there seems to be some doubt that the ultimate consumer will be in the market for as much canned goods this year as in 1950. Accordingly, sales volume may be small—and inventories at the end of 1951 may be quite a little higher than the $700 million at December 31, 1950. Such a trend would point to narrower margins this year, inasmuch as the 1951 pack seems likely to be higher priced.

Corn Refiners

Progress in scientific farming paving the way for increased yields would prove helpful for canners in holding down prices of vegetables. Hope in this direction is found in recent development of ammonia fertilizers which have given favorable results in stimulating corn yields. Success of this development conceivably could prove especially important in providing increased raw materials and greater price stability for corn oil refiners. Leading factors in processing salad oil, corn syrup, starches, etc., are Corn Products Refining, Penick & Ford and Clinton Foods. Naturally any discovery tending to boost crop yields would be eminently favorable for such companies in the assurance of abundant raw materials.

One of the major bright spots in the outlook for canners is the promise of continued large military procurement program. All indications point to maintenance of the Armed Forces at a peacetime peak, which would mean extensive purchases of canned goods. This fact seems likely to provide a firm price structure even though civilian demand may slump.

Exports also are expected to hold at a relatively high level. Shipments of food to Europe have been maintained on an unusually high plane in recent years in assisting friendly nations to strengthen their economy. Requirements for the Marshall Plan may fall short of earlier years.

Baking and Milling

High rate of industrial activity is important in appraising prospects for the baking and flour milling sections. Full pay envelopes not only encourage more frequent purchase of pastries and other high profit margin items but stimulate sales of bread. Although home bread baking has dwindled to an insignificant factor, there is less competition in the home when women folk are gainfully employed. Moreover, recent introduction of semi-baked rolls that may be purchased in groceries and packaged food stores and baked at home in a few moments has reduced home bread-baking. Volume of business in this new product promises to become important for commercial bakeries.

Promise of a continued growth in sales, partly in line with rapid population increase, should help effect increased operating costs stemming from wage increases. Indications are that peak probably has passed in costs of flour, shortening, sugar and other important ingredients. Some relief may be obtained from price regulators to offset wage grants, but on balance earnings of major baking concerns seem likely to decline moderately this year in reflecting narrower profit margins and higher taxes. Dividends of practically all important companies have been as well protected, however, that current rates may be expected to continue.

Flour milling companies may feel some slackening in expert demand, although military needs seem likely to remain at a high level. Livestock population is continuing to grow and demand for prepared foods promises to hold at satisfactory levels. Improvement in this division in making available better products for animals and poultry has proved an important sales stimulant.

Plentiful raw materials and sustained consumer demand afford assurance of satisfactory results for cereal companies. Consumption is spurred by constant promotional activities and follows closely the trend of national income as well as growth in younger generation. Development of new breakfast cereals that make home preparation simpler and have favorable taste appeal tends to keep these products on an upward trend. Most companies in the milling or baking field devote some attention to prepared cereals and only a few—such as Cream of Wheat—concentrate on a single product.

Recent indications of a slackening in rising grain prices point to possible lowering of costs. Profit margins are relatively wide in prepared cereals, so that any downtrend in grain costs would be a favorable factor earningswise. In general, prospects are reasonably favorable for virtually all segments of the food and dairy field.

The Trend of Events

(*Continued from page* 432)

modities, the International Materials Conference, consisting of eleven nations, was set-up and decided that world-wide agreement on the distribution of scarce materials among the non-communist countries, was vital.

The first important step was taken very recently when conventions were concluded on tungsten and molybdenum, shortly followed by a separate agreement on sulphur. The Conference is also at work on the following: copper, lead, zinc, cotton, cotton linters, manganese, nickel, cobalt, wool, pulp and paper.

It is obvious that only imperative need for mutual protection could have brought about a program of such world-wide scope and severity. Under this plan, whereby for the first time since the difficulties became acute, it will be possible to assure more equitable distribution of scarce materials, with benefit to both producing and consuming nation, the nations involved have voluntarily relinquished hitherto jealously guarded national prerogatives. Those who see that only

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international co-operation on the economic as well as the political and military levels can provide a source of increasing strength for the non-communist world have a full appreciation that in the new world-wide control of tungsten, molybdenum and sulphur, an example is offered that sacrifice, while strenuous, may provide exceedingly beneficial results, since it is a sacrifice in which none suffers and all gain.

Answers to Inquiries

(*Continued from page* 470)

Wood Working Company showed net sales of $23,552,312 and net earnings of $1.61 per share. This compares favorably to the $27,928,554 net sales end net earnings of $1.78 per share reported for the last twelve-month period ended July 31, 1950. Net profit after taxes amounted to $2,252,253 or 9.6% against sales. Dividends totaled 70c a share for the seven-month period. On the basis of 1,400,000 shares of stock outstanding book value was $14.44 at the end of February. In accordance with a long standing policy of the company to reinvest a portion of the earnings, 91c per share was retained for continuing development and growth.

New gains in raw material recovery in the manufacture of plywood, doors and other wood products forecast that M & M would make continuing gains in the utilization of all raw materials in the future. This and higher grade yields received part of the credit for company growth.

Company wholly owns or controls approximately two and one-half billion feet of timber. It maintains a reserve of approximately this amount, acquiring new forest lands to offset depletion, insofar as practical. During the seven months covered by the above report the company acquired 26,000,000 feet, greatly offsetting a depletion of 37 million board feet for the same period. On February 28 it had an approved cash reserve earmarked for purchase of timber lands of approximately $1,200,000. Company's long range objective involves increasing timber reserves to support additional production facilities as and when established.

Dividends including extras totaled $1.10 a share in 1950 and 50c was paid in the first half of the current year.

As I See It!

(*Continued from page* 433)

It must also be considered that Russia has not yet consolidated her hold on her satellites. She needs a number of more years to encompass such a result. In fact, reports are leaking out that there is a growing degree of dissatisfaction with economic hardships among the populace of the various countries now under the Russian aegis.

Under the influence of these various conditions and because for the first time she is impressed and worried by concrete manifestations of the growing military power of the West, Russia shows definite signs of wishing to retreat. It is interesting in this connection to know that not only has our antagonist retreated, but even among our allies who have hitherto showed signs of dragging their feet, some of the more important ones are now commencing more ardently to support American policies and plans, as vide the British willingness now to add Greece and Turkey to the North Atlantic pact.

It may be then that the growing recognition of these developments not only affects Russia but may bring about a moderate slackening of our armaments program within a reasonable period. For one thing, we will have to develop a program of supplanting the reduction in arms building with a much greater amount of foreign aid on the economic side, and also the Defense Dept. may not wish to build up too great supplies of conventional arms, part of which might become more or less obsolete in a few years though, of course, greater production of aircraft and atomic weapons will be pressed. All in all, it looks as if the spectre of the probability of total war in the near future is, for the time being, vanishing from the international scene.

◆

The news of the assassination of King Abdullah of Trans-Jordan serves to focus attention on the growing signs of fanaticism plus extreme nationalism among the Moslem populations of the Near East. The signs are profuse: the Iranian impasse, the increasing hostility of Egypt to Britain, the current difficult negotiations of American oil companies operating in Saudi-Arabia, Kuwait and Iraq, more or less open threats against Israel by the Arab countries, and other sources of tension. Needless to say, the Near East is one of the most important strategic areas in the world. In our struggle against the Soviets, nothing must be left undone to bring about stability in this area. Failure to do so would greatly imperil our cause.

Further Market Adjustment Ahead?

(*Continued from page* 435)

new developments. But current market opinion, which is devoid of propaganda, surely puts the burden of proof on the inflation oracles; and, fallible or not, we will take market opinion any day over that of Washington officialdom, which has some axes to grind.

There is uncertainty, or justified doubt, about the rest of this year, and about 1952 potentialities, nearly everywhere one looks – about the foreign prospect, about the tempo and ultimate scope of the arms program, about civilian business activity, about taxes, about earnings and about the dividends of run-of-the-mine or marginal companies. You should continue to maintain conservative reserves in cash or equivalent. You should also scrutinize your existing stock holdings with an eye to weeding out inferior issues, and increasing either the safety factor or the longer-term growth potential or both, according to your circumstances and primary investment objectives.—Monday, July 23.

BOOK REVIEW

THE ROLE OF MEASUREMENT IN ECONOMICS

By RICHARD STONE

In this new Monograph in the *Applied Economics Series* (the material for which was given in the Newmarch Lectures delivered at University College, London, early in 1949) Mr. Stone describes the role of measurement in various classes of economic problem. He stresses the need to combine theory and observation, and the importance of fundamental research designed to provide better tools for attacking recurring problems, now dealt with largely by guesswork. The discussion of methods is illustrated by the official estimates of national income and expenditure of the United Kingdom.

Cambridge $2.50